

The University of Dublin

Trinity College

Minutes of Audit Committee, Thursday 13 June 2013

*Present* Ms J O'Neill (Chair), Professor J McGilp, Professor J O'Hagan,  
Professor J Barry, Mr P O'Reilly  
  
(*ex officio*) Internal Auditor (secretary), Secretary to the College

*In Attendance* Ms M Thompson

The Chief Financial Officer, Senior Financial Accountant, Ms Maureen Mulligan of the Comptroller and Auditor General together with Mr Sean O'Keefe and Mr Richard Hobson of KPMG attended for items AD/12-13/80 and AD/12-13/81

The Chief Operating Officer attended for item AD/12-13/82

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

**AD/12-13/77 Minutes**

The Minutes of the meeting held on 8 May 2013 were approved and signed.

**AD/12-13/78 Call-over**

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

**AD/12-13/79 Matters Arising**

There were no matters arising.

**SECTION A and B - Policy & Implementation Issues**

**AD/12-13/80 Consideration of 2010/11 Consolidated Financial Statements**

XXX The Committee noted the following documents which had been circulated for consideration under this item:

- Memorandum from the Treasurer dated 6 June 2013
- Draft Consolidated Financial Statements for the year ended 30 September 2011
- Draft Letter of Representation to KPMG for 2010/11
- Draft Letter of Representation to the Comptroller and Auditor General for 2010/11
- Draft Comptroller and Auditor General Audit Report 2010/11
- Financial Sustainability Indicators
- Finance Committee Minute (Ref: FN/12-13/82 Meeting of 22 May 2013)
- KPMG Report to the Audit Committee on the Consolidated Financial Statements for the year ended 30 September 2011

The Chief Financial Officer, having been invited by the Chair to comment on the conduct of the audit, advised that it had been completed satisfactorily, but it had been delayed due to issues that had arisen concerning the accounting treatment of the endowment funds. He advised that he had no material issues to bring to the attention of the Committee and that the audit had been conducted satisfactorily by all concerned. The Committee noted recent personnel changes in the KPMG audit team.

The Treasurer and Senior Financial Accountant then withdrew from the meeting temporarily and the representatives of KPMG joined the meeting by invitation.

Mr O'Keefe, having been invited by the Chair to comment on the conduct of the audit, advised that KPMG had no particular issues to report, commenting that they will welcome the introduction of the new financial information system in 2013/14 which will eliminate many of the difficulties associated with the current manual system of accounts preparation. He advised that the KPMG team had received good co-operation and support throughout the audit. In response to a query concerning the impact of recent personnel changes on the conduct of the audit, Mr O'Keefe advised that the team had sufficient experience and planning was in place to ensure continuity.

The Chief Financial Officer and Senior Financial Accountant then re-joined the meeting, together with Ms Maureen Mulligan of the Comptroller and Auditor General.

At the invitation of the Chair, the Chief Financial Officer presented the Consolidated GAAP accounts for 2010/11. He advised that the KPMG and C&AG audits were now substantially complete, subject to Board approval of the financial statements and letters of representation. He advised that, as has been the case in previous years, KPMG intend to qualify their audit report in regard to the amount of the pension asset while the C&AG will be issuing an unqualified audit report in this regard. Referring to previous discussions about the accounting treatment of the Trust Funds and Trinity Foundation, he advised that the notes to the accounts were amended to reflect that the SORP will be fully adopted in the 2011/12 financial statements and that the draft audit report of the C&AG references this in an emphasis of matter paragraph.

The Chief Financial Officer drew the Committee's attention to a possible risk associated with the Board approved arrangements regarding timing of the repayment of the EIB loan and invited the Committee's views on the matter. The Committee, noting the advice of the Chief Financial Officer that there are no governance, accounting or legal issues associated with the EIB loan, also noted the reputational risks that could arise nonetheless from existing arrangements. During a brief discussion, the Chief Financial Officer answered a number of queries in regard to current arrangements and confirmed that the HEA is aware of the loan, which is included in the Borrowing Framework annual return. The Committee agreed that in striving to prudently manage financial resources, any commercial organisation would leverage all its assets to maximum effect. However, given the potential reputational risk and/or disapproval by

the EIB or HEA of the approach adopted, the Board should reflect further on the matter taking account of the mission of the EIB and that if there is a doubt about current arrangements clarification should be sought.

In conclusion, the Chief Financial Officer advised that the financial statements will be presented to Board for approval on 26 June 2013, to be followed by KPMG and C&AG completing their audit reports, and that the accounts will go before the Oireachtas in due course.

The Chief Financial Officer thanked the staff in his office for their work in completing the audit, as well as acknowledging the work of the KPMG and C&AG teams.

At the invitation of the Chair, Mr O'Keefe summarised the KPMG Report, which had been circulated and in particular drew the Committee's attention to key audit issues for consideration as follows:

- Audit qualification in relation to the pension guarantees
- Calculation of pension liability
- Update on key issues from Funding Statements audit
- Treatment of Trust Funds and Trinity Foundation
- Heritage Assets

Mr O'Keefe advised that KPMG will continue to qualify their audit report due to the absence of a letter from the HEA that the State will fund the full pension liabilities. Mr O'Keefe drew the Committee's attention to key assumptions in regard to the calculation of the pension liability and advised that KPMG were satisfied they were reasonable and he highlighted key differences between the Funding Statements and the GAAP financial statements.

Mr O'Keefe advised that a new accounting standard, FRS 30 "Heritage Assets" is applicable to College for the first time this year and advised of management's view in this regard. During a brief discussion, Mr O'Keefe answered a number of technical queries from members. In conclusion, Mr O'Keefe advised that there were no unadjusted audit differences to report and that no material control weaknesses had been identified during the audit.

The Chair, welcoming Ms Mulligan of the C&AG to the meeting, invited Ms Mulligan to comment on the results of the C&AG audit. Ms Mulligan advised that the audit had been completed satisfactorily. In regard to the accounting treatment of endowment funds and Trinity Foundation, Ms Mulligan advised that a form of wording had now been agreed and included in the notes to the accounts and that attention is drawn to this in the draft audit opinion. Ms Mulligan advised that a draft management letter had been recently issued for comment but that there were no substantive matters to bring to the Committee's attention. The Senior Financial Accountant confirmed that management responses were being compiled and that the management letter would be finalised with the C&AG over the coming weeks.

In response to a query, the Chief Financial Officer advised that work on the Consolidated GAAP financial statements for 2011/12 will

continue during the summer and that he expects these financial statements to be available in Michaelmas Term.

The Committee welcomed the Financial Sustainability Indicators which had been circulated. Noting the difficulty of identifying valid comparators and that this is an evolving process, it was agreed that care needs to be taken in interpreting them. The Committee emphasised the importance of financial sustainability and that it is a matter of continuing concern that the College continues to run a deficit and erode its reserves. In response, the Chief Financial Officer advised of steps being taken to address the matter to reach a balanced budget position by 2013/14.

In response to a query, Mr O'Keefe confirmed that there were no new or unusual items in the letter of representation to be drawn to the attention of the Committee. Ms Mulligan, noting the specific representation on pay matters, confirmed that the list of exceptions had been received and was being investigated and that there were no other issues to bring to the attention of the Committee.

In conclusion, the Committee expressed satisfaction with the conduct of the audit and agreed to recommend the accounts as presented and the letters of representation to Board for approval, also noting the concerns expressed about continuing deficits while recognising the efforts being made to address the situation.

Action:

The Chair to recommend the accounts and letters of representation to Board for approval as discussed.

**AD/12-13/81 Liaison with the Comptroller and Auditor General**

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

- Memorandum from the Internal Auditor dated 5 June 2013
- C&AG Proposal in regard to future audit arrangements
- Email from KPMG to Chief Financial Officer dated 15 May 2013

Referring to the C&AG proposal that contracts for audit services should in future contain a specified role for the C&AG, he invited the Committee's views on the issues noted in his memorandum. In particular, he drew the Committee's attention to the C&AG proposal that in future the Board appointed auditors recognise a duty of care to the C&AG and "acknowledge an entitlement to participate in and direct audit planning and execution". He advised that the issues of controlling costs and ensuring the College's statutory financial reporting timescales are met need consideration.

Ms Mulligan advised that the overall aim of the C&AG is to improve the efficiency of the audit process and that the intention is that the overall fee level will remain unchanged. Ms Mulligan confirmed that the C&AG will continue to rely on the work of the externally appointed auditors but advised that the C&AG would like to participate at the planning stage to bring a joint audit plan to the Committee. She advised that the externally appointed auditors would continue to execute the plan, with C&AG involvement at the

end of the audit. Ms Mulligan acknowledged that the two sets of auditors may still disagree and both sets of auditors will continue to issue their own audit opinion. In addition, Ms Mulligan advised that the C&AG may still need to do probity and regularity testing and may carry out supplementary work.

Mr O’Keefe advised the Committee that KPMG welcomes the C&AG initiative to improve the audit process and would be happy to engage with all concerned to develop the proposal. The Chief Financial Officer advised that he would welcome any proposal to make the process more efficient and that having the C&AG involved in the planning stage should save time. The Internal Auditor, advising that the facility for the C&AG to engage in the audit planning has been in place for several years and need not await sectoral discussions on the proposal, proposed that the C&AG could engage in bringing a joint audit plan to the Committee in October. Ms Mulligan welcomed the suggestion and agreed to participate in the planning meetings later in the year.

The Committee noted the issues raised in regard to timing and cost management issues and emphasised the importance of meeting the timescales. Members welcomed the proposal in principle, noting that it will be refined to see how best to implement it practically and agreed to review progress at the next meeting in October.

Noting that from 2013/14 the new financial system will generate the GAAP Consolidated Accounts which will take the place of the Funding Statements for presentation to Board in Hilary Term in accordance with the Statues, the Internal Auditor advised that the College’s own need to have the Funding Statements audited will cease then. He enquired if there was scope to dispense with the auditing of the Funding Statements from 2013/14 to allow the Committee more time to focus on other issues. The Chief Financial Officer advised that the matter had been raised at IUA level with the HEA who had signalled a continued need to have the Funding Statements prepared and audited. In response to a query he advised that in the UK a separate mechanism from the audited accounts is in place that meets the needs of the funding agency. He also advised that the potential for cost savings is substantial, not just in audit fees but also the significant internal resources required to derive the figures from the GAAP accounts.

The Committee, noting the C&AG has no interest in having the Funding Statements prepared or audited, recommended that the Chief Financial Officer engage in dialogue with the HEA to explore the possibility of reaching a more cost effective means of satisfying the accountability and reporting needs and report back to a future meeting on the outcome.

In response to a query, the Chief Financial Officer confirmed that due to the high level of engagement by KPMG in regard to technical issues an additional fee had been requested by them on a once-off basis for the advices received. The Committee approved the additional fee as requested.

The Chair thanked the Treasurer’s Office and KPMG teams for their valuable contribution to discussions and they withdrew from the

meeting.

In response to a query concerning the conduct of the audit, Ms Mulligan advised that it had been satisfactory and that they had received good cooperation and access to papers throughout. In regard to the C&AG proposal, Ms Mulligan reiterated that the aim of the C&AG is to make audit process more efficient and that greater C&AG involvement will avoid unnecessary duplication of work.

The Chair thanked Ms Mulligan for attending the meeting and for her valuable contributions to topics discussed.

Actions:

- 81.1 The Treasurer's Office to advise the C&AG of the timing of planning meetings for the next audit and the Committee to consider a joint audit plan at the next meeting.
- 81.2 The Committee to receive an update on progress in developing the proposal for future audit arrangements at the next meeting.
- 81.3 The Chief Financial Officer to engage with the HEA regarding the cost of the preparation and audit of the Funding Statements and possible alternatives for reporting and accountability.

**AD/12-13/82 Committee Effectiveness - Academic Risks and other  
XXX Considerations**

The Chair welcomed the Chief Operating Officer to the meeting and drew the Committee's attention to the following documents, which had been circulated for consideration.

- Paper from Professor John O'Hagan on academic risk, dated 10 June 2013
- Memorandum from the Chief Operating Officer, dated 11 June 2013
- Risk Register Summary
- College High Level Risk Register

Referring to the Risk Register items, which had come late to the Committee, the Chair proposed that the Chief Operating Officer brief the Committee on a general level and that the Committee may re-consider it a later stage when members will have had more time to reflect on the documentation.

The Chief Operating Officer briefed the Committee on the main changes to the Risk Register since last considered by the Committee in January, with particular focus on funding, HR, IT and administrative and service reform risks. During a brief discussion, members expressed concern that the risk associated with simultaneously managing multiple and complex major change management projects may not be adequately captured in the Risk Register. In response to a query, the Chief Operating Officer advised that a Project Management Office is to be established in College with overall responsibility for managing major College projects. The Committee agreed to reflect on issues discussed and consider the Risk Register in greater depth at a future meeting.

The Chair then drew the Committee's attention to Professor O'Hagan's paper on academic risk and invited Professor O'Hagan to comment on it. Professor O'Hagan stressed the importance of non-financial risks and that a desire to increase the focus on these had been raised in previous self-evaluations by the Committee. He advised that the focus at School level should be on how best to minimise such risks within financial constraints rather than be concerned with College finances. Outlining several areas of potential risk associated with the examination process, lectures, including course evaluation, guidelines relating to research graduate students, etc., he expressed concern that these are not receiving adequate attention because of the focus on financial and funding risks. The Internal Auditor advised that he fully agreed with the need to re-engineer the risk assessment focus at School level and that he had had a preliminary discussion with the Vice-Provost/Chief Academic Officer who had been supportive of finding a better system for use in the academic community. He also advised of the results of audit work that is currently underway, which support the need for a new approach in academic areas and a need to adapt the risk policy and structures to provide appropriate leadership.

During a detailed discussion following, members noted the danger of becoming overly focused on financial risks to the exclusion of other risks. The Committee agreed that: -

- management of the College funding risk is a matter for Executive Officers and the Board, not Schools
- the focus at School level should be on local academic matters, local objectives and how best to achieve them within existing constraints
- the best way to promote this would be to enhance embedding of risk management in an appropriate manner focussed on School objectives
- there is a need to bridge the gap between Schools and the assessment and management of risk centrally and ensure that the High-Level Risk Register adequately reflects risks associated with the core business of College
- Heads of School have responsibility for ensuring risks are properly managed and College procedures observed and it may be time to consider strengthening the annual assurance statement required of them that underlies the Board Statement of Internal Control

The Committee thanked Professor O'Hagan for his paper and agreed to reflect further on the matters. The Internal Auditor advised that anticipating issues arising from the discussion, the work plan envisages reviews in academic areas on a theme basis and could address a number of the risks identified in that manner.

Action:

The Committee to re-consider the risks at a future meeting.

**AD/12-13/83 GeneSIS**

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Referring to discussions at the previous Audit Committee meeting, the Chair advised that she and the Internal Auditor had met the Provost to convey the Committee's views and drew the Committee's

attention to her memorandum to the Provost, which had been circulated under Section C.

The Internal Auditor advised of developments since the meeting, including the reformation of the Project Board and that he had met the newly appointed external Chair. In addition, he advised that Ernst & Young were engaged to do an independent review of the options within budgetary constraints and that he understood a proposal will go to Board on 26 June. The College Secretary advised that further external appointments will be made to the Project Board, that a "Users Group" had now been established and that a number of other significant changes were in progress to deal with the issues.

Members expressed concern about the running and other costs not included in the original proposal and the realisable benefits of the project. In response to a query on the scale of the budget overrun in proposals to date, the Internal Auditor advised that the amount of any ultimate overrun would depend on the cost of proposals now being finalised to fund completion of essential components. He also advised, however, that a budget overrun cannot be measured in total monetary terms alone and that regard to what may not be delivered, but included in the original budget, is also needed.

Following a discussion, the Committee welcomed the steps being taken to stabilise the Project.

#### **AD/12-13/84 FIS Project**

The Internal Auditor invited the Committee's attention to the Internal Audit report on the FIS Project dated June 2013, which had been circulated. He advised that the project is still in a relatively early stage and significant challenges lie ahead but the findings to date indicate it is being well managed and he had no significant issues regarding the project to bring to the Committee's attention.

However, he drew the Committee's attention to the possibly significant integration costs which were seen as a College cost and not factored into this or any other project, noting that this further highlighted the need for co-ordination of projects at a College level but should be addressed in future through the proposed Project Management Office.

The Committee, noting that the FIS Project may be reviewed at a later point if the risk level rises, welcomed the positive findings and conclusions.

#### **AD/12-13/85 Internal Audit Resources**

The Internal Auditor advised that he would shortly be meeting with the Chief Operating Officer to discuss Internal Audit resources and would update the Committee further at the meeting in October.

#### **AD/12-13/86 Audit Committee Meeting Schedule**

The Internal Auditor drew the Committee's attention to the Draft Audit Committee Meeting Schedule for 2013/14, which had been circulated. He requested that members consider it and inform him of any difficulties with the tentative dates before the break for the



summer.

**AD/12-13/87 Status of Audit Committee Recommendations**

The Internal Auditor advised that, following discussions at the last Audit Committee meeting, he had met the Chief Financial Officer and Secretary to discuss how progress on open Audit Committee recommendations might be accelerated. He outlined the proposals that are being evolved and advised that the Committee will be updated at its next meeting on the results of the final discussions.

Action:

The Internal Auditor to update the Committee regarding an agreed process for accelerating resolution of open items in the status log of Audit Committee recommendations.

### **Section C - Items for Noting**

**AD/12-13/88 Control Exception Report**

The Committee noted the Control Exception Report dated May 2013, which had been circulated, commenting on a number of them and the underlying difficulty in a devolved structure of ensuring awareness of College procedures and compliance.

**AD/12-13/89 Current Developments and Practices in Audit**

The Committee noted the article that had been circulated under this topic.

**AD/12-13/90 Board Papers**

The Committee noted the Board Agendas and Minutes that had been circulated.

**AD/12-13/91 Committee Membership**

Under any other business, the Committee extended its appreciation to Professor John O'Hagan, who was attending his last Committee meeting after six years on the Committee and thanked him for his very significant and unstinting work in support of the Audit Committee in College and the very significant contribution he has made over that period.

The Internal Advisor advised that Mr J Cunningham had resigned formally from the Committee and nominations for additional external members had been forwarded to the Provost for consideration.