

The University of Dublin

Trinity College

Minutes of Audit Committee, Tuesday 13 November 2014

Present Ms J O'Neill (Chair), Professor J Barry, Professor R Byrne, Ms A Duffy, Professor J McGilp

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

In Attendance Ms M Thompson

The Chief Financial Officer, the Deputy Chief Financial Officer, together with Mr S O'Keefe and Mr R Hobson of KPMG attended for items AD/14-15/05 to 06.

Mr S Carton and Ms M Mulligan of the Office of the Comptroller and Auditor General attended for item AD/14-15/05 to 06.

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

AD/14-15/01 Minutes

The Minutes of the meeting held on 19 June 2014 were approved and signed.

AD/14-15/02 Call-over

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

AD/14-15/03 Committee Membership

The Chair advised that Mr Oliver Cussen will replace Mr Pat O'Reilly as an external member of the Committee and will attend his first meeting on 27 November 2014.

AD/14-15/04 Matters Arising

There were no matters arising.

SECTION A and B - Policy & Implementation Issues

AD/14-15/05 Plan for Audit of 2013/14 Accounts

Introducing the item, the Internal Auditor drew the Committee's attention to the KPMG Audit Plan for the 2013/14 accounts, which had been circulated.

The Chair welcomed the Chief Financial Officer and Deputy Chief Financial Officer, together with Mr O'Keefe and Mr Hobson of KPMG and Mr Carton and Ms Mulligan of the Office of the Comptroller and Auditor General to the meeting for the consideration of the Audit Plan and Audit Arrangements.

At the invitation of the Chair, Mr O’Keefe of KPMG outlined the approach that KPMG intend to take in their audit of the College’s financial statements. Mr O’Keefe outlined the phases to the audit, commenting that it was broadly consistent with previous years including: risk assessment, planning, evaluation of key internal controls, substantive testing followed by audit completion and delivery. Mr O’Keefe confirmed that any key judgements and provisioning will be brought to the attention of the Committee and that the audit findings will be presented to the Committee at its meeting in March 2015.

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

- (i) Pension obligations and recognition of government guarantee assets for Model and Supplementation schemes
- (ii) Management override of controls
- (iii) Investment Properties
- (iv) Completeness of Liabilities
- (v) Research Projects
- (vi) Staff Costs
- (vii) Fixed assets and depreciation
- (viii) Consolidation of endowment funds and subsidiary entities
- (ix) Funding 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. The Committee noted the introduction of the new Oracle Financial Information System (FIS) in 2014 and that this would result in a fundamental switch from a “Funding Statements” framework to a GAAP accounting framework.

In regard to pension obligations, 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 as in previous years will continue to issue a qualification in their audit report on the Consolidated GAAP financial statements. He advised that this area is identified as a significant audit risk for the College because of the level of judgement involved or the financial statement impact. The Committee noted that the C&AG take a different view on this matter.

The Chair invited Mr Carton and Ms Mulligan to comment on the Audit Plan. Mr Carton acknowledged that the Audit Plan was comprehensive and covered all major risk areas. He advised that the C&AG will rely on the work of KPMG but will continue to carry out additional work and probity testing. In particular, Mr Carton advised the Committee that the C&AG would focus on Capital Projects in their audit and that this would be a sector wide approach.

Commenting on the plan, the Chief Financial Officer advised that this will be the first time to deliver two sets of accounts at the same time, and with the introduction of FIS as well recent changes in his

team, it will be a challenging audit and year end. He reminded the Committee of the College's statutory obligations to present accounts to Board in Hilary term and that he expects KPMG and the C&AG to adhere to these timelines. He added that it would facilitate the meeting of the deadline if the C&AG could produce their Audit Plan at an early stage in future. The Committee noted that the GAAP financial statements for 2012 and 2013 will be presented to the next meeting of the Committee on 27 November.

During a detailed discussion, the Chief Financial Officer and the KPMG and C&AG teams answered a number of technical queries from members. In particular, the Committee noted the challenges of producing an Audit Plan in the absence of a comprehensive Risk Register. The Committee also noted the reference in the Audit Plan to a change in estimate of useful lives for calculating depreciation of assets in the earlier years accounts and that this matter would be considered when those accounts are presented to the next meeting.

In conclusion, the Committee approved the KPMG Audit Plan as presented, noting that the C&AG will focus on Capital Projects in their audit.

AD/14-15/06 Audit Arrangements

XXX

Introducing the item, the Chair advised that the Committee is not comfortable to have an arrangement with which the College's statutory auditor, the C&AG, is expressing dissatisfaction and stressed the importance of resolving the matter in time for the audit tender in January 2015.

The Internal Auditor briefed the Committee on the matter and drew the Committee's attention, in particular, to his memorandum dated 6 November 2014, which had been circulated together with recent email correspondence with all parties summarising the position to date. He advised that further discussion will be necessary between the C&AG and KPMG before a firm proposal or draft letters of engagement can be drawn up and brought to the attention of the Committee for consideration. He advised that while it was not intended to discuss matters in detail at the meeting, it afforded a good opportunity as all parties were in attendance to review the main issues to be resolved. The Internal Auditor reminded the Committee that an agreed protocol had been put in place some years ago to facilitate C&AG input into the planning process and reiterated the importance of resolving the issues before the tender in January.

Ms Mulligan advised that the intention of the C&AG is to make the audit process more efficient and that in their view, present arrangements are cumbersome. She advised that the C&AG had an issue around "duty of care" across the sector and that they had been trying to work towards resolving the issue and thus negate the need for a hold harmless letter. In particular, Ms Mulligan outlined the concerns of the C&AG in regard to timelines and advised that the C&AG would have reservations about entering into what they view as a form of contract with one particular firm in the sector. Ms Mulligan advised that the C&AG would prefer to resolve the matter

at sectoral level and that while they contract out work regularly the procurement of services would not be possible to put in place in the sector by January 2015.

Mr O'Keefe acknowledged the complexity of the issues to be resolved and advised that KPMG had engaged actively with the C&AG to reach a solution. Ms Mulligan advised that the C&AG had no issues with College or the quality of the audit, but were unhappy with the current audit arrangements in the sector generally.

The Internal Auditor advised that it was not proposed that the C&AG enter any contract with KPMG at this stage, as it is unknown who will be awarded the next audit services contract, but the request was that the C&AG engage in discussion with KPMG as to their requirements and agree a pro-forma letter of engagement that would be acceptable to both sets of auditors. He advised that it was intended such a letter could then be presented as a proposal to the Committee for revised arrangements and form the basis for specifying the tender requirements in January.

During a discussion, the Committee expressed concern and disappointment that this matter continues to be unresolved despite the best efforts of KPMG and the College. The Committee welcomed the acknowledgement from the C&AG of the constructive approach of KPMG. The Committee stressed that the College has done everything in its power to resolve the issue and expressed concern at how it might be perceived externally if the matter is not resolved.

The Committee, noting the difficulty of progressing the issue on a sectoral level, requested that a plan and timescale be drawn up on how and when matters can be resolved on a sectoral basis and that the Internal Auditor engage with the C&AG to agree it so that provision for an eventual change can be factored into the audit tender process in January.

The Chair thanked the Chief Financial Officer's team, the KPMG team and Mr Carton and Ms Mulligan of the C&AG for their valuable contributions to discussions and they withdrew from the meeting.

Action: The Internal Auditor to engage with the C&AG to agree a timescale and plan for addressing the audit arrangements.

AD/14-15/07 Internal Audit Resources

The Internal Auditor updated the Committee on developments since the last meeting. He advised that the Audit Committee paper on Internal Audit resources had been presented to Board on 25 June 2014. He advised that, as a first step, the Deputy Internal Auditor position had been advertised recently and will be filled soon. The Committee noted that a decision is still to be made in regard to other measures to increase internal audit resources.

The Committee noted and welcomed progress to date and agreed to keep the matter under review.

AD/14-15/08 Status Update on Internal Audit Work-plan

Introducing the item, the Internal Auditor drew the Committee's attention to his memorandum on the internal audit work-plan dated 6 November 2014, which had been circulated. He advised that the work-plan was more limited than in the past due to reduction in staffing and had also been prepared in the absence of a comprehensive Risk Register. He summarised the progress on the work-plan, as well as drawing members' attention to additional work which had been added to the work-plan since it was last considered by the Committee in April because of changes to his view of the risk profile.

During a detailed discussion, the Committee noted the challenges of targeting audit resources effectively in the absence of a comprehensive Risk Register and the risk that key issues could be overlooked. The Committee emphasised the importance of including non-financial risks in the work-plan. In particular, the Committee emphasised the importance of reviewing academic risks and recommended that consideration be given to including two specific risk areas in next year's work-plan and Annual Report. The Committee noted the Vice-Provost/Chief Academic Officer will attend a future meeting of the Committee and welcomed the opportunity that this will afford to engage more with the academic operations and risk.

In regard to the on-going pension qualification, the Committee recommended that the Chief Financial Officer communicate the Committee's dissatisfaction to the HEA in his attempts to resolve the issue. The Committee expressed concern that, while the qualification is technical but would probably be understood in an Irish context, international readers may not appreciate the underlying circumstances and it may reflect poorly on the College and its reputation in a global context.

The Internal Auditor advised that as the College's financial statements will now be presented in March 2015, it had been decided to defer presenting the Committee's Annual Report until the new year. He also advised members that it may be necessary to hold an additional meeting in December to consider a number of outstanding reviews that will not be completed in time for the next meeting of the Committee on 27 November. Following a brief discussion, the Committee agreed to hold an additional meeting on Thursday 11 December. The Committee noted that it may be necessary to make changes to the 2015 dates and that the Internal Auditor would consult with the Chair and update members as soon as possible.

Actions:

- 8.1 The Internal Auditor to advise the Chief Financial Officer that the Committee wishes its concerns be advised to the HEA when following up the pension issue.
- 8.2 The Internal Auditor to revise the meeting schedule for 2015 after consulting with the Chair,

AD/14-15/09 Review of Purchasing Cards - Process Controls

The Internal Auditor drew the Committee's attention to the report on Purchasing Cards - Review of Process Controls dated November 2014, which had been circulated. He advised the Committee that following the introduction of Oracle as the new financial information system the use of pCards is expected to increase. He reminded members of a previous review of pCards carried out in 2011 in which a number of control weaknesses were identified and that given the increasing use in College, the system controls were reviewed again. He advised that the risks identified in 2011 remain and because of the lack of assurance it was decided to extend the work to carry out a detailed review of a large sample of transactions. Noting that satisfactory management responses were outstanding to the issues raised in the current review of system controls, he advised that in finalising the report on pCard transactions these would be obtained.

Following a discussion, the Committee expressed concern at the potential reputational and financial risks continuing. The Committee noted the findings of the report on process controls and agreed to consider the issues and the management responses in more detail when the report on pCard transactions is presented.

AD/14-15/10 Trinity Foundation

Introducing the item, the Internal Auditor drew the Committee's attention to his memorandum dated 6 November 2014, which had been circulated together with the Memorandum of Understanding (MoU) governing audit arrangements with Trinity Foundation. He tabled a minor amendment to the text of the MoU, advising that the Trinity Foundation Board had approved the wording of the MoU at its meeting held on 12 November 2014.

The Committee noted and welcomed progress made on this matter and approved the final version of the MoU, incorporating the tabled amendment.

AD/14-15/11 Committee circulation

Under Any Other Business the Internal Auditor requested the agreement of the Committee to consider moving from the current paper circulation supported by the electronic availability of papers on the Internal Audit sharepoint site to full electronic circulation using Board Pad software. The Committee agreed to consider such a proposal at a future meeting.

Action: The Internal Audit to bring forward a proposal on electronic circulation of Committee papers for consideration.

SECTION C - Items for Noting

AD/14-15/12 Reporting Arrangements

The Committee noted the final Reporting Arrangements document that had been circulated.

AD/14-15/13 Non-Audit Services

The Committee noted the final policy on the provision of Non-Audit

Services by External Auditors dated 19 June 2014, which had been circulated.

AD/14-15/14 Board Papers

The Committee noted the Board minutes and agendas that had been circulated.