



Minutes of Audit Committee, Wednesday 19 October 2016

Present Ms J O'Neill (Chair), Professor J Barry, Mr O Cussen, Ms A Duffy
(ex officio) Internal Auditor/ Secretary (Mr F Sheeran), Secretary to the College (Mr J Coman)

Apologies Professor R Byrne, Professor R Gilligan

The Chair welcomed the appointment of Professor Robert Gilligan as the Committee's Board representative, noting that Professor Gilligan would attend his first meeting on 1 December 2016.

In Attendance Deputy Internal Auditor (Ms A Cooney), Ms M Thompson

Mr S Carton and Mr D Mc Carrick of the Office of the Comptroller and Auditor General and Mr S O'Keefe and Mr R Hobson of KPMG attended for items AD/16-17/05 together with the Chief Financial Officer (Mr I Mathews), the Deputy Chief Financial Officer (Ms L Ryan) and the Financial and Management Accounting Manager (Ms E Farrell).

The Chief Financial Officer, the Vice-Provost/Chief Academic Officer (Professor C Morash) and the Chief Operating Officer (Ms G Ruane) attended for items AD/16-17/07 to AD/16-17/09

The Director of Internationalisation (Ms S Ryan) attended for item AD/16-17/10

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

AD/16-17/01 Statement of Interest

The Chair invited members to declare any conflicts of interest that they may have in relation to any items on the Agenda. The Secretary to the College advised of a conflict of interest in relation to item 11 on the Agenda (CRANN Review of activities related to self-financing account 9030638). The Committee agreed that the Secretary withdraw from the meeting during consideration of this item.

AD/16-17/02 Minutes

The Minutes of the meeting held on 14 June 2016 were approved.

AD/16-17/03 Call-over

The Committee noted the actions that had been implemented since the previous meeting and those that remained outstanding. In particular, the Internal Auditor advised the Committee that the items on the Call-over which are also on the Audit Committee Recommendations Log will be removed from the Call-over in future.

AD/16-17/04 Update on College Business

Noting that Professor Gilligan, the Committee's Board representative was not present, the Chair invited the Secretary to the College to update members on recent Board as well as Executive Officer business. The Secretary to the College gave a verbal update to members highlighting key projects and strategies currently being considered by Board and Executive Officers. Commenting that the update was very useful for the Committee, the Chair proposed that the Secretary to the College present a short paper for this item at the next meeting. The Secretary to the College confirmed he would prepare a paper on Executive Officer business and liaise with Professor Gilligan in regard to the update on Board business.

Action:

The Secretary to the College to present a short paper at the next meeting and to liaise with the Board representative.

SECTION A and B - Policy & Implementation Issues

AD/16-17/05 Plan for the Audit of the 2015/16 Accounts

The Chair drew the Committee's attention to the following documents which had been circulated for consideration under this item:

- KPMG Audit Plan for the 2015/16 External Audit
- Office of the C&AG - Overview of Audit Approach
- Memorandum from the Management and Financial Accounting Manager dated 12 October 2016 regarding the impact of FRS 102 on the Consolidated Financial Statements for the year ended 30 September 2016

The Chair welcomed the Chief Financial Officer, the Deputy Chief Financial Officer and the Management and Financial Accounting Manager, together with Mr O'Keefe and Mr Hobson of KPMG and Mr Carton and Mr McCarrick of the Office of the Comptroller and Auditor General to the meeting for the consideration of the Audit Plan for the 2015/16 financial statements.

At the invitation of the Chair, Mr O'Keefe outlined the approach KPMG intend to take in their audit of University's 2015/16 financial statements. In particular, Mr O'Keefe drew the Committee's attention to significant audit issues and the proposed audit approaches associated with them. Mr O'Keefe advised that as part of the audit they would liaise with their internal consultants on IT and pension issues.

Mr O'Keefe advised members that FRS 102 has now superseded Irish GAAP and confirmed that the 2016 financial statements will be prepared for the first time in accordance with this new standard. In addition, he advised the new Higher Education SORP, which complements FRS 102, will also be applicable for the first time. The Committee noted that Trinity voluntarily applies the SORP, which is mandatory for UK universities. Mr O'Keefe advised that KPMG had on-

going consultations during the year with the University on issues relating to the transition to FRS 102.

In particular, Mr O'Keefe drew the Committee's attention to the impact of the transition to FRS 102 on the following:

- Capital Grants
- Revenue Reserves
- Recognition of Income

The Committee also noted that the University has decided to avail of an option under FRS 102 to revalue its land at the transition date on a one-off basis.

Finally, Mr O'Keefe also informed the Committee that materiality for the financial statements has been set at the lower end of the range, which would give greater assurance to the University.

The Chair invited Mr Carton of the C&AG to comment on the Audit Plan. Mr Carton drew the Committee's attention to a document circulated presenting an overview of their proposed audit approach. He advised that as in previous audits, the C&AG would seek to rely on the audit work performed by KPMG but will continue to carry out additional work and probity testing according to their remit. He noted that the audit timelines are challenging, particularly as the C&AG are last in the audit sequence but that they are achievable.

The Chair invited the Chief Financial Officer to comment on the Audit Plan. In regard to the ongoing FRS12 pension qualification by KPMG, he advised that Trinity have continued to engage with the Higher Education Authority to try to find a resolution and he advised of recent positive progress on the issue. The Committee noted and welcomed the correspondence on this matter that had been circulated under Section C for Noting. The Chief Financial Officer also informed members that the benefits of FIS are now having a positive impact for the audit of the financial statements.

In response to a query on cyber security, Mr O'Keefe advised that KPMG will not carry out a specific review of this area during the audit. The Internal Auditor advised the Committee that Internal Audit have commissioned some initial scoping work in this important area.

In response to a query on subsidiary companies, the Chief Financial Officer outlined the governance arrangements in place for subsidiaries.

Finally, the Committee welcomed the risk overview contained in the Audit Plan, commenting that it is useful in the absence of an updated Risk Register. In conclusion, the Committee noted the Audit Plan as presented and that the auditors would be considering compliance with FRS 102 as part of their audits.

The Chair thanked the Chief Financial Officer, the Deputy Chief Financial Officer, the Management and Financial Accounting Manager together with the teams from KPMG and the C&AG for their contribution to discussions and they withdrew from the meeting.

The Committee noted that the Chief Financial Officer would re-join the meeting for consideration of the Executive Officers' Response to the Audit Committee Annual Report together with the agenda items on the Financial Position and the Audit Committee Recommendations Log.

AD/16-17/06 Externally Contracted Services - Report No. 4 Construction Framework

The Chair drew the Committee's attention to the Internal Audit report Externally Contracted Services - Report No 4 Construction Framework, which had been circulated and invited Ms Cooney to brief the Committee on the findings and recommendations contained in report.

Ms Cooney reminded the Committee that as part of the recent review of external consultants, it was noted that there are a number of frameworks in operation in the University and advised that the Construction Consultancy Services Framework Agreement is the last of these frameworks selected for audit. Ms Cooney advised that the report had been delayed over the summer awaiting information. As evidence was unavailable for a number of transactions there is a possibility that some of the approval exceptions reported in the audit of the Externally Contracted Services - Business Resources Framework could be replicated. Ms Cooney advised that no major issues were identified during the review and that all recommendations had been accepted by management.

During a discussion, the Committee noted that the Interim Workflow was in use during the period of the review and remains in use in Estates and Facilities and one other area in the University. Recalling the earlier Internal Audit review of the Interim Workflow, the Committee expressed concern that the significant weaknesses and risks highlighted remain and that if the Interim Workflow cannot be closed in the two remaining areas, these weaknesses need to be addressed in another fashion. The Committee noted that the inherent risks considered by the Committee in early 2016, were still present.

The Secretary to the College advised that steps are being taken under his remit to implement the recommendations in Report No. 1 on the Externally Contracted Services - Business Resources Framework. The Committee noted that a policy on the engagement of external consultants will be finalised shortly.

AD/16-17/07 Audit Committee Annual Report to Board 2015/16 - Response of XXX Executive Officers

The Chair welcomed the Vice-Provost/Chief Academic Officer and the Chief Operating Officer to the meeting, together with the Chief Financial Officer who re-joined the meeting.

Introducing the item, the Chair drew the Committee's attention to the Executive Officers' Response to the Annual Report dated 15 June 2016, which had been circulated, together with a copy of the Audit Committee Annual Report 2015/16 for reference. Noting that the Committee's Annual Report and the Executive Officers' Response are now six and four months old respectively, the Chair invited the three divisional heads for their views and an update on the issues raised in the Annual Report. Noting that the Provost is expected to attend the

Audit Committee meeting on 1 December for further consideration of this topic, the Chair advised that the Committee did not intend to reach conclusions at this meeting but rather have an open discussion on the issues.

The Chair reiterated that the Committee recognise and understand the scale of the University's ambition and appreciate the necessity for action but it also has to consider the challenges involved. The Chair reminded members that the Committee had highlighted organisational governance and capacity risks to the delivery of the projects and strategies in its Annual Report. She emphasised that, when an overall view is taken, the Committee has a deep-seated concern in regard to these issues. The Chair also noted that governance issues are by nature difficult to address and can require a long timeframe, while in the meantime pressure on capital projects due to construction inflation is rising.

The Chief Financial Officer advised the Committee that he had co-ordinated the Response to the Annual Report on behalf of Executive Officers, noting that it had been considered by Board on 22 June 2016. He advised that the Response to the Annual Report had also been considered by Finance Committee on 10 June 2016 and tabled Minute FN/15-16/161. In particular, the Committee noted the proposal that representatives of the Finance Committee meet with members of the Audit Committee to discuss the Annual Report to Board in more detail. In response to a query, the Chief Financial Officer advised that the Finance Committee wished to understand in more depth some of the points raised by the Audit Committee. The Committee agreed to a meeting in principle but that it was important to note the distinct roles of the two Committees and, in particular, that the Audit Committee should not stray into a management role. The Committee agreed to consider the most effective way of organising such a meeting, given the difficulty with scheduling dates and that the Internal Auditor should action this following the meeting.

The Chief Financial Officer advised that there have been recent discussions at Board in regard to management structures. He advised that Executive Officers had recently held a workshop to prioritise projects as a first step to determining the relative timing of the projects important to the future of the College. He acknowledged the scale of the implementation challenges, in particular noting that greater energy was needed around implementation but that it was important to note the significant level of achievement also.

The Chief Operating Officer advised the Committee that her remit is to build infrastructure and student services in the university. In particular, the Chief Operating Officer advised that approval was now in place for the appointment of a Chief Risk Officer and also advised of developments in regard to the University's commercial strategy and progress on increasing income but cautioned that this is dependent on having more freedom to act. She also advised that work is underway to strengthen project management capability but that capacity is a concern.

Noting that his remit is to manage the university's core functions of teaching and research, the Vice-Provost/Chief Academic Officer advised his views would echo many of the comments made by the

Chief Financial Officer. In particular, he reiterated the importance of prioritisation and the need to ensure that the university's core business is prioritised. Referring to the challenging Head of School role, he emphasised the importance of "buy-in" from Schools to deliver College strategies. The Committee noted that this posed a communications as well as a governance or change management challenge.

During a detailed discussion, the Committee considered the implementation challenges posed by the University's devolved structure, noting that planning and strategisation are important and necessary but that the difficult decisions for organisations arise when it comes to making the follow-on choices and implementing a programme. In regard to commercial activities members commented that risk management and internal control are equally as important in that area and that a reduction in constraints is dependent upon College having its house in order.

In conclusion, the Committee commented that it appeared that some of the key points highlighted in the Report may not been fully understood and stressed its continuing concern in regard to the issues it had raised. The Committee agreed however to defer reaching conclusions on the matter until after its next meeting on 1st December.

Action:

The Internal Auditor to investigate possible dates and schedule a meeting with representatives of the Finance Committee.

AD/16-17/08 Financial Position

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The Chair drew the Committee's attention to the memorandum from the Chief Financial Officer to Finance Committee dated 13 September 2016 incorporating a Section 37 Letter to HEA and Financial Estimates, which had been circulated for consideration under this item.

The Chief Financial Officer advised the Committee that a follow-up budgetary meeting had been held with the HEA in August 2016 and that an updated five-year plan was presented to the HEA. The Committee noted with concern the scenarios in the five-year forecasts presented in the document circulated.

In response to a query as to how realistic the budgetary targets are, given the very substantial growth in income that is forecast, the Chief Financial Officer acknowledged the scale of the overall agenda to generate and grow revenue. He stressed the achievements made to date and the progress being made but that it is important to ground the targets in reality and that there is a need to motivate and incentivise efforts in the right direction.

During a detailed discussion the Committee noted the opinions expressed and the reliance on Schools; the difficult role of Heads of School; the scope for growing postgraduate income; the governance and structural challenges to be overcome and a need to take a long term view when developing courses.

In conclusion, the Committee expressed concern at the financial position and future estimates and emphasised that the deficit is not

sustainable and needs to be a primary focus. Noting the comments on constraints imposed on College actions, the Committee nonetheless re-iterated its view that managing the position successfully to return to a surplus is necessary to gaining more autonomy and that care is needed in all its activities to avoid damaging its reputation.

AD/16-17/09 Audit Committee Recommendations Log

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The Chair drew the Committee's attention to the Audit Committee Recommendations Log, which had been circulated and invited the Chief Operating Officer to comment on the Log.

The Chief Operating Officer advised the Committee that half of the outstanding recommendations listed under the CSD area actually fall within the Provost's Directorate and are therefore outside her control. Of the remaining recommendations, the Chief Operating Officer advised that her Office is working to reduce the number of outstanding recommendations in the CSD area.

In response to a query, the Internal Auditor advised that the process had been established in order to keep Executive Officers Group better informed throughout the year. He advised that the agreed procedure was that the Divisional Heads be invited to Audit Committee to represent Executive Officers and not necessarily as owners of specific issues. He advised that the persons responsible for actions are detailed in the log but suggested that the title of each section could be amplified to reflect the wider scope beyond the divisions. The Committee agreed that the Internal Auditor would liaise with the Office of the Chief Operating Officer on the matter. The Internal Auditor also reminded members that, as requested by Board when considering the Annual Report in April, the Recommendations Log will be forwarded to the next Board meeting for consideration. The Committee also noted that as the Recommendations Log was only received immediately prior to circulation to the Committee, it had not been possible on this occasion for Internal Audit to check that items removed from the Log were fully completed but that this would be undertaken in the coming weeks.

In conclusion, the Committee noted the latest version of the Recommendations Log and reiterated its concern at the number of outstanding recommendations while noting that some of the recommendations were not a matter for any single individual but would require action at College level by Officers.

The Chair thanked the Vice-Provost/Chief Academic Officer, the Chief Financial Officer and the Chief Operating Officer who then withdrew from the meeting.

Action:

- 9.1 The Internal Auditor to liaise with the Office of the Chief Operating Officer to amplify the titles used in the Recommendations Log.
- 9.2 The Recommendations Log to be forwarded to the next Board meeting.

AD/16-17/10 Global Relations Strategy II Update

The Chair welcomed Ms Sinead Ryan, Director of Internationalisation to the meeting and drew the Committee's attention to the following items, which had been circulated:

- Memorandum from the Internal Auditor dated 12 October 2016
- Global Relations Strategy II Internal Audit Report dated January 2016 (for reference)
- Memorandum from the Office of the Vice-President for Global Relations dated 12 October 2016

Introducing the item, the Internal Auditor reminded the Committee, that when considering the Internal Audit Report on the Global Relations Strategy II in February, it had decided to invite the Vice-President for Global Relations to the October meeting to update the Committee. He advised that Ms Ryan, the Director of Internationalisation is attending the meeting in place of the Vice-President who is overseas at present. He reminded the Committee of the main findings in the audit report and, in particular, the narrow governance focus only on the GRO while there is a need to have oversight across College of the many areas and actions needed to ensure the success of the strategy.

The Chair invited Ms Ryan to update the Committee on progress on the Report's recommendations.

Noting that the GRS II is still at an early stage, Ms Ryan advised that the Committee's recommendations were welcome and that in particular its views on governance and accounting and reporting had resonated with them. Referring to the governance issue, she advised that the International Committee is currently reviewing its terms of reference. Referring to accounting and reporting, Ms Ryan advised the Committee of the need to better develop the accounting and reporting to ensure that there is no double-counting with E3 and the Business School.

Ms Ryan then drew the Committee's attention to the memorandum to Finance Committee from the Vice-President for Global Relations dated 18 September 2016 and briefed the Committee on the predictions on student registrations outlined in the memorandum. The Committee noted the reasons for the conservative estimates and Mr Ryan advised that they should have reliable figures in regard to registrations during the first half of November. During a detailed discussion on the gap between the number of applications and registrations, the Committee stressed the need for a granular analysis of the data to identify where problems might lie.

In conclusion, Ms Ryan advised that the project is at a critical time and sustaining progress and meeting the future targets requires investment now that has a long lead-in time. She advised that the scale of recent budget cuts would make this impossible and that it was of grave concern. The Committee noting that GRS is one of the key pillars in the income strategy expressed the hope that this decision was taken in that context and that the future impact risks had been adequately weighed up.

In conclusion, the Committee welcomed the update and the Chair

thanked Ms Ryan for her valuable input to discussions and she withdrew from the meeting.

AD/16-17/11 CRANN Review of activities related to self-financing account 9030638

As agreed at the beginning of the meeting under Statement of Interest, the Secretary to the College withdrew from the meeting for consideration of this item.

The Chair invited the Internal Auditor to introduce the topic and brief the Committee on the background to the Review. Briefly outlining the nature of research institutes, their historical establishment and related funding uncertainties he advised the Committee that he had received a formal letter from the current Director of CRANN, a large research institute engaged in Nanoscience Research, requesting an investigation of an alleged serious matter concerning the remuneration of a Science Foundation (SFI) Principal Investigator (PI) and the charging of the associated costs. He advised that following receipt of the letter, Internal Audit had met with the CRANN Director to discuss it and Internal Audit carried out an investigation.

The Deputy Internal Auditor then briefed the Committee on the findings. The Committee noted that the core issue is a dispute over cost allocation and funding but that other issues arose in the course of the review. During a discussion, the Committee recalling the 2012 audit work in this area, expressed its concern that there still appears to be problems in regard to contract management which need to be addressed. The Deputy Internal Auditor also noted that better communications might have avoided the issue with CRANN reaching the stage that it did. She stressed that there is a need to examine the financial sustainability of research institutions as a whole and advised that the Dean of Research will be preparing a paper shortly on this issue for Finance Committee.

In response to a query, the Internal Auditor advised that following the review, the Director of CRANN accepted the findings and recommendations contained in the Review and is awaiting the outcome of the review of financial sustainability. The Committee noted that this matter will be kept under review.

Action:

The Internal Auditor to follow up on the results of the review of the financial sustainability by the Dean of Research and Finance Committee.

Section C - For Noting

AD/16-17/12 FRS12 - Recognition of Pension Asset in respect of Model Scheme and pension supplementation

The Committee noted the memorandum from the Deputy Chief Financial Officer dated 30 September 2016, together with the case for legislation submitted to the Pensions Working Group, which had been circulated. The Committee welcomed progress on the matter.

AD/16-17/13 Board Papers

The Committee noted the Board agenda and minutes which had been circulated.

AD/16-17/14 Any Other Business

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Under any other Business, the Internal Auditor updated the Committee on developments in regard to Internal Audit resources. He advised the Committee that following the appointment of the Deputy Internal Auditor earlier in the year, there had been some difficulty in having the post backfilled with regard to the funding but that it had now been resolved and recently advertised. He also advised that the remaining resource increase that the Committee had requested had been submitted for consideration in the budgetary process. The Committee requested that it be kept updated on progress to adequately resource the function.