HEFCE Assurance Review

University of Chichester

Date of visit: 3 December 2013
Final report: 10 February 2014
Reviewer: Andrew Malin
Introduction

1. A HEFCE Assurance Review was undertaken at the University of Chichester (the university) on 3 December 2013. Ahead of the visit we arranged to see drafts of most of the 2013 annual accountability returns due to be submitted to HEFCE on 2 December. The aim of the review, as set out in HEFCE Circular letter (25/2006) ‘Assurance Service work in higher education institutions’, was to examine how the university exercises accountability for the public funding which it receives.

Scope

2. The university is required to demonstrate to HEFCE, through its various returns, that:
   - it has adequate and effective risk management, control and governance
   - funds have been applied only for the purposes for which they were received
   - it is financially sustainable
   - value for money (VfM) is achieved
   - data can be relied upon
   - it complies with charity-related reporting requirements.

3. The returns on which HEFCE places reliance are:
   - audited financial statements
   - external auditor’s memorandum and management letter
   - annual report of the Audit Committee
   - annual report of the internal auditor
   - financial forecasts and commentaries, including the updated current year forecast
   - Annual Monitoring Statement (AMS)
   - Transparent Approach to Costing (TRAC) return
   - HESA and HESES student data returns
   - Annual Assurance Return - Annex E (revised for 2013) to the Model Financial Memorandum between HEFCE and institutions.

4. In undertaking an Assurance Review we may conclude one of the following:
   - We are able to place reliance on the accountability information.
   - We are able to place reliance on the institution’s accountability information, but have made recommendations for improvement in a number of areas.
   - The institution needs to implement recommendations so that we can rely on the accountability information.
   - We cannot place reliance on the accountability information.

Overall conclusion

5. Our overall conclusion is that we are able to place reliance on the university’s accountability information.

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1. Not HESES13, or the 2012-13 TRAC return due for submission by 31 January 2014.
2. It is optional for institutions also to provide an Annual Sustainability (ASSUR) statement and an annual report on value for money.
Assurance Review findings

Introduction
6. This section of the report includes our key findings from the Assurance Review and observations by exception.

Governance
7. The university considers that its governance arrangements are consistent with the Guide for Members of Higher Education Governing Bodies (the Guide) published by the Committee of University Chairs (CUC) and, in particular, the Governance Code of Practice that forms Part 1 of the Guide. We identified nothing during our review to suggest that this is not the case.

8. During our preparation for the review we noted that the Board of Governors (the Board) had become concerned that a number of experienced governors would be retiring at the end of 2013 adding to vacancies created by unscheduled resignations. This gave rise to the risk that it might not be possible to identify in time appropriately skilled replacements, particularly for the key roles of Chair and Chairs of Audit Committee (AC) and of Strategy and Resources Committee (SRC). For half of the year the Chair of SRC was also Chair of the Board, but we understand that this is not intended to be the norm.

9. We were therefore pleased to learn that the week before our visit the Board had ratified appointments to fill all of the vacancies. We were also reassured that arrangements are being made both to ensure their induction to the university and to make them aware of sector-wide training and networking opportunities. The Board has struggled to identify and appoint black or minority ethnic members or members with significant business interests, but has made progress in appointing people who are still at work. The Chichester Diocese understands the need for its nominees on the Board to have appropriate skills to support the university’s continued development.

10. The CUC Code expects a formal and rigorous evaluation at least every five years of the effectiveness of governing bodies and their main committees, as well as the academic board. The next review of the Board is due in 2014-15, meaning that the cohort of new members will have both time to see the Board in action and a reasonably early opportunity to consider formally whether and, if so, what changes might be appropriate. We encourage the university to coordinate the review of the Board with those of its key committees and, in view of comments later in this report about its role in risk management, that of the Academic Board.

11. In March 2013 the Board approved ‘Twenty-Twenty Vision’ its strategy for the period to 2020. It is a short statement of mission and vision, setting out eight high-level goals. It was published in this way as a deliberate contrast with the university’s 2010 strategy, but was developed with input from Governors, staff across the university, and students. At meetings later in the year the Board discussed the underpinning enabling strategies and, in July, adopted a set of headline performance indicators. We are pleased to note that the university intends to continue its practice of discussing the indicators – relative to both university targets and selected ‘benchmark’ institutions - at an annual joint meeting of the Board and the Academic Board as well as at their own normal meetings.
12. During 2013 the university became sponsor of the University of Chichester (Multi-Academy Trust (the Academy Trust) - a company limited by guarantee). We were initially concerned that, as sponsor, the university would retain control of the Academy Trust (by virtue of the powers of the company members) and thus need to consolidate its financial statements with those of the university. We now understand that the university successfully persuaded the Department for Education to change the model Articles of Association in a way which means that the university, either ex officio or by nomination, cannot provide a majority of the members. This means that the question of consolidation for accounting purposes does not arise. However, university governors and senior executives will be influential in the operation of the Academy Trust as it grows and will need to take care both to avoid conflicts of interest and not to act as shadow directors.

Audit Committee
13. The AC is chaired by an experienced member of the Board and has four other members, two of whom are not Governors. It normally meets four times a year and the members may meet the external and internal auditors without officers present if they so wish. Although we understand that such discussions routinely take place before and after each meeting, they are not recorded in the committee’s minutes. We were told that members meet officers without the auditors before or after every meeting. It was clear that the AC understands its responsibility to give assurances about risk management, control and governance, value for money, and the management and quality assurance of data provided to HEFCE and others. Indeed, there was evidence in both the minutes of meetings and in its 2012-13 annual report of challenge to management and auditors, and active monitoring of progress with implementing recommendations.

14. The AC gives detailed consideration to the internal audit plan, regular progress reports and annual report, and to the external audit plan and management letter. At most meetings it receives a presentation from a university manager – sometimes in conjunction with its discussion of an internal audit report on the manager’s area of responsibility. The committee discusses all internal audit assignment reports. We know that audit committees at other institutions receive summaries of internal audit reports with low risk findings, but full reports of those with high or critical risk findings. The university may wish to consider this approach.

Audit Committee Annual Report
15. The AC’s 2012-13 annual report provided the Board with the required assurances (see paragraph 13). There is more discussion below on several of these, but we note here that the committee receives an annual report from the university Secretary to support its opinion on governance.

16. The AC’s report clearly covered significant issues between the financial year-end and the date of the report, including the committee’s consideration of the 2012-13 financial statements. We suggest that the agenda for the relevant Board meeting should be structured so that the AC’s annual report and opinions are discussed before the Board’s formal approval of the audited financial statements.
Internal audit and internal audit annual report
17. The internal audit service is provided by KPMG, who were appointed with effect from 1 August 2010. The audit plan is risk-based and covers core financial systems, governance and value for money. Individual assignments are selected after consideration of the critical risk register. We note that the AC is keen to ensure both timely finalisation of individual audits and that KPMG provides staff with experience both in higher education generally and in specialist topics such as marketing when they are the subject of audit.

18. KPMG’s internal audit annual report for 2012-13 concluded that the university has adequate and effective arrangements for risk management, control and governance, and adequate arrangements for promoting economy, efficiency and effectiveness (collectively VfM). To be fully compliant with the Financial Memorandum (FM) the latter opinion should also refer to the effectiveness of VfM arrangements and we would expect this to be clear in future.

External audit and management letter
19. External audit is provided by BDO who have held this appointment since 2006. The firm was reappointed in 2012 for a further four years which can be extended until 2018-19 without further market testing. The same partner has been responsible for the audit since the first year. Under the FM (paragraph 74) there should (but not must) be a change of partner after seven years. However the audit committee has decided that the partner in question still provides ‘challenge and independence’ and will continue to act for 2013-14, followed by a transitional year when a new partner will be introduced with the intention of taking full responsibility for 2014-15.

20. No significant deficiencies or control issues were reported by BDO in their management letter for the year ended 31 July 2013, and the audit opinions on the financial statements were unqualified. In forming their opinion, BDO (who advised the university during the establishment of the Academy Trust) gave detailed consideration to the university’s legal relationship with the trust and agreed that it was not part of the university group for financial reporting purposes. Notwithstanding the financial reporting position, we have commented earlier (paragraph 12) on possible risks of conflicts of interest and shadow directorship.

Financial strategy and management reporting
21. The university approved new financial and estates strategies in November 2013, both developed to support ‘The Twenty-Twenty Vision. Both recognise the need to generate higher levels of cash - to compensate for reduced capital grant funding – in order to continue to maintain and develop the university’s academic and residential estate. The estates strategy was developed with input from external consultants; the financial strategy benefitted from discussion at a governor away-day.

22. Monthly management accounts including year-end projections are prepared and discussed at the Chief Executive’s Team (ChET) meeting. The most recent available management accounts are considered by the SRC at each meeting. Although budget responsibility is devolved, management accounting is a central service. Apart from internal audit coverage, there has not been a recent review of the effectiveness of financial
management. The university may take the opportunity to test ‘customer satisfaction’ once a recently installed new finance (IT) system has become embedded.

**Value for money**

23. We have noted above (paragraphs 15 and 18) that the AC provided an appropriate formal opinion on VfM for 2012-13 but that the internal auditors annual report should refer to the effectiveness of the university’s arrangements for VfM.

24. In addition to the work carried out by the internal auditor, the committee takes assurance from an annual VfM report from the Deputy Vice-Chancellor. The report covers the university’s performance on a number of measures of income (for example, income per member of academic staff; widening participation indicators) and expenditure (for example, staff costs relative to income; various estates indicators) both relative to its own targets and sector comparators. This high-level approach is to be welcomed, but we suggested that the report could also provide more information about procurement initiatives delivering cost savings, and aspects of curriculum planning (for example, critical mass for course viability).

**Risk management**

25. The Board is responsible for overseeing the university’s risk management arrangements, advised formally by the AC. In addition to the work of the internal auditors, the AC gains assurance from the minutes of the Strategy Risk and Projects Group (a representative group of senior managers chaired by the Vice-Chancellor) and occasional reports from risk owners. Risk issues are also discussed by the SRC, providing further assurance to the Board.

26. Having recently approved the ‘Twenty-Twenty Vision’, the university is restructuring its risk register to ensure alignment. We discussed the idea of developing an assurance map (possibly itself underpinned by lower level maps) and a requirement for risk owners to report formally to relevant senior managers and/or the AC. Such a map can clarify sources of assurance - including the Academic Board’s contribution to risk management - that underpin the AC’s annual opinions.

**Annual Monitoring Statement (AMS)**

27. The Head of Planning collates the AMS from information provided by the managers responsible for the various components. The financial elements are validated with the finance team before the AMS is approved by ChET and submitted to HEFCE.

**Transparent Approach to Costing (TRAC) return**

28. The 2011-12 return and related commentary were reviewed and approved by ChET and the SRC before being submitted to HEFCE. TRAC is not a significant issue for the university, because of its relatively low research income, but is considered by the university to be robust because of its use internally to assist with estates planning and as the basis for benchmarking of teaching activity.
Student data returns

29. The HESES and HESA returns are produced by the Head of Planning. As with other returns, they are approved by ChET before being submitted to HEFCE. The Deputy Vice-Chancellor also presents an annual data assurance report to the AC.

30. We note that the university remains sensitive to the need for accuracy in this area after concerns raised by a HEFCE data audit several years ago. As a result, there is internal audit coverage of data quality each year; the work in 2012-13 resulted in a ‘low overall risk’ opinion.

The university as an exempt charity

31. The narrative pages in the 2012-13 financial statements include a clear report on activities delivered for the public benefit and confirm that Board members (the university’s trustees) had regard to the Charity Commission’s public benefit guidance. The website has a page providing core information about the university’s constitution, its trustees, et cetera. The university thus meets its reporting obligations as a charity.

Annual Assurance Return

32. The Vice-Chancellor is the Accountable Officer of the university and he signed the required return for 2012-13 providing the necessary assurances. The Vice-Chancellor attends all meetings of both AC and SRC and chairs the Academic Board. The ChET meets regularly and discusses all accountability returns before their submission to relevant committees and/or the Board.

HEFCE assurance reporting

33. This report has been prepared for HEFCE and for use within the university. Although there are a few suggestions that might further improve currently sound practice, there are no formal recommendations. It does not include every matter that was discussed during the review.

34. Whilst we have no objection to the report being made available to third parties, no responsibility is accepted for any reliance third parties may place upon it. Unless circumstances change, we expect to conduct our next Assurance Review at the university in five years’ time.