Annex F

Issues arising from HEFCE Audit Service visits to explore the annual operating statement process

1. The HEFCE Audit Service visited five HEIs in November and December 2000 to test, as a pilot exercise, the reasonableness of the annual operating statements submitted to HEFCE in July 2000. In each case, we found that the AOS return was reasonably stated. A number of issues of sector-wide interest arose from our work.

2. At all of the institutions visited, the special funding provided under the widening participation (WP), learning and teaching (L&T) and HEROBC initiatives was used to supplement, consolidate and strengthen existing work in these areas. Therefore, although we did not set out specifically to audit 'additionality', we were readily assured that all of the special funding was being spent on relevant activity. Indeed, we found that in general, the activity described in the AOS understated the true level of activity by a significant extent.

3. In accounting and accountability terms, we noted that the way in which HEIs distribute this type of funding internally is highly variable. Consequently, an audit trail for the funds was not always explicitly present, but every institution visited would have been able to show how the funds had been spent if necessary.

4. Some institutions used the AOS template to report to HEFCE, whilst others sent the institution's own format of the AOS. Both approaches showed strengths and weaknesses, but we saw no reason to recommend one option over the other. The principal issues arising were:

a. The quality and clarity of information provided was sometimes variable within individual AOS returns. Where different staff complete the various parts of the return, a centrally based officer could review the return as a whole to ensure it makes sense as a stand-alone document.

b. Objectives and tasks could generally have conformed more to SMART criteria (specific, measurable, attainable, realistic and timely), with more realistic performance measures and/or success criteria.

c. As part of the AOS return process, HEFCE sought information on future targets and tasks. Sometimes these were absent, unclear, or had not been re-assessed in the light of progress to date and were consequently inappropriate in some way.

d. Where progress against a target or task for the year was unsatisfactory, for whatever reason, this was sometimes unclear. It is more helpful for HEFCE (and presumably for internal purposes) for progress to be clearly stated and an explanation given where appropriate.

e. Some staff found that the template format (whether internal or HEFCE) did not allow them to provide a full explanation of progress. In such cases, supplementary information should be provided.

f. Staff working in the WP, L&T and HEROBC activity areas were satisfied that the accountability requirements of the AOS were broadly fair, reasonable, modest and proportionate. In many cases, completion of the return was a simple case of copying information already provided internally.

5. We found many examples of good practice in the WP, L&T and HEROBC areas, and encourage institutions to develop explicit links between these initiatives, as there are many areas of common interest. By way of example, we specifically found:

a. Under WP, there is much generic work being undertaken which will be of value to the HE sector as a whole and not just the HEI itself.

b. HEROBC activity can help institutions to develop their knowledge of work-related skills. This can be used in L&T development. Such curriculum developments can also be used in WP activity to promote the employability value of HE courses.

c. Information collected on local employers under HEROBC can be used to promote WP, through those employers, through teaching company schemes, and in demonstrating to prospective students the strengths of links with employers.

d. HEIs can learn from WP activity what students find attractive in L&T terms and to use that knowledge to encourage them to apply and stay in HE.

e. HEIs commonly use students to promote WP activity. Students often gain useful work-related skills in the process.

6. Institutions are encouraged to explore the potential for exploiting such linkages between the various special initiative activities.

7. At most institutions visited, the skills and knowledge being acquired by staff under the WP and HEROBC activities highlighted a knowledge management risk. Good use of organisational structures, staff location and working practices can all help to mitigate against loss of knowledge and information. Nevertheless, all institutions are encouraged to maximise the capture, co-ordination and dissemination of relevant information to minimise the risk further; in other words, information and knowledge of value to the institution should be held and managed in a corporate way and not ‘owned’ by an individual.

8. At some institutions, staff have been recruited to newly established posts to help implement the new initiatives. In preparing plans, the time taken to recruit staff was frequently under-estimated. This usually resulted in a delay in the achievement of the first year’s objectives and tasks.

9. We found at some institutions that for claims for reimbursement under the Project Capital Allocations initiative there was an unnecessary delay in submitting. This adversely impacts on an institution’s cash flow. It is quite likely that relatively simple improvements in

routine processes or communications between functions would enable claims to be submitted much earlier.

10. To keep bidding costs to a minimum, we noted that some institutions treated the Project Capital bids as stand-alone projects. In practice, there were several projects being bid for and these were often additional to the previously existing plans for the estates function. The overall effect can be to place considerable pressure on estates staff, as well as senior managers, because several projects are in progress at the same time. This can readily lead to delays in completing projects. Consequently, HEIs are encouraged to consider the impact of several projects taking place at the same time when estimating each project's timetable.

11. At one institution, all capital projects (not just those under Project Capital) require the production of a file of key documents of auditable quality. This ensures good practice and that the institution's regulations are adhered to. It also provides assurance to the senior manager responsible for the project, both in respect of the internal processes and the external accountability demands. Where an audit of the project is required, the work by the auditor (and hence the fee) is minimised.

12. At some institutions, staff working in the HEROBC area were unaware that HEFCE had provided guidance to the sector on the management of Related Companies in 1996. This guidance has recently been updated and is available on the HEFCE web-site, under Publications, as HEFCE 00/57 and 00/58.