



OECD IMHE-HEFCE PROJECT ON
INTERNATIONAL COMPARATIVE HIGHER EDUCATION
FINANCIAL MANAGEMENT AND GOVERNANCE

**FINANCIAL MANAGEMENT AND GOVERNANCE IN HEIS:
IRELAND**



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INTRODUCTION & BACKGROUND TO THIS REPORT

1. This study of financial management policies and systems within the Irish higher education system represents the Irish input to an international comparative study of the same subject. The international study is by the OECD¹, IMHE² and HEFCE³. The aim of the international report is to compare practices across various countries, identifying aspects of best practice from which countries may learn from each other. The Irish report has been commissioned by the HEA⁴, and its scope includes all Universities and Institutes of Technology. The report describes the system of higher education in Ireland, identifies key aspects of higher education policy, institutional financial management practices, establishing a link between policy and practices in these institutions.

2. There are fourteen Institutes of Technology and seven Universities in Ireland. All Universities are subject to the requirements of the 1997 Universities Act. Thirteen of the Institutes of Technology are subject to the Regional Technical Colleges Acts 1992 to 1999. Dublin Institute of Technology is subject to the Dublin Institute of Technology Acts 1992 and 1994.

3. The report aims to provide a general overview of higher education financial management in Ireland, while at the same time addressing the differences between the two distinct sectors. In addition to background and legislative research that was carried out for the purposes of the study, all the relevant institutions were invited to contribute to the study through completion of a comprehensive questionnaire addressing all aspects of their financial management practices. The purpose of the questionnaire was to gain insight to key financial management issues for the institutions.

4. The report is structured specifically as required by the international author in order to facilitate ease of collation and comparison.

The HEA wishes to gratefully acknowledge the assistance of Mazars Consulting in the preparation of this report.

¹ Organisation for Economic Cooperation & Development

² Institutional Management in Higher Education (a programme of the OECD),

³ Higher Education Funding Council of England

⁴ Higher Education Authority – The Irish State Agency with responsibility for the advancement of Higher Education in Ireland.

INTRODUCTION

Description

5. The Irish higher education system is predominantly a publicly funded system. It comprises seven universities, fourteen institutes of technology and a number of other smaller institutions. In the year 2000/01 there were 126 000 full-time students in the system of which 121 000 were in publicly funded institutions. There were also 32 000 part-time students. The system is broadly regarded as a binary system. It is the stated objective of the Minister for Education and Science that two broad sectors with separate missions be maintained. Under this system the universities are funded through the Higher Education Authority (HEA) which was founded in 1969, and the institutes of technology and some other colleges are funded directly by the Department of Education and Science. Full-time student numbers have increased from a level of 100 000 as recently as 1996/97 and from 20 000 in 1965.

6. The universities are essentially concerned with undergraduate and postgraduate degree programmes and with basic and applied research. The main work of the institutes of technology has been in certificate and diploma undergraduate programmes mainly in vocational subjects in line with the policy of promoting industrial and economic development. The activities of the institutes have extended now to the provision of a smaller number of degree programmes as well as to a growing involvement in regionally oriented applied research. The number of degree students as a percentage of the total population of the institutes of technology has however grown from 17.5% in 1997/98 to 29.8% in 2001/02.

7. Admission to Irish higher education is competitive, based on achievement in the national second level terminal examination. An independent body, the Central Applications Office, acts as a clearing house for applications for undergraduate applications.

Legal & Administrative Environment for Higher Education Financial Governance

8. As stated above funding for higher education in Ireland at present is divided into two main streams. The Higher Education Authority funds the universities and a number of other institutions, and the Department of Education and Science directly funds the institutes of technology and some other institutions. However in line with a recent policy decision that the Department of Education and Science should withdraw from day to day operational management issues and should focus on more strategic and policy matters, it has been decided that from 2004 funding for the Institutes of Technology should also be transferred to the HEA.

The Higher Education Authority

9. The HEA is an independent statutory body which advises the Minister for Education and Science and the Government in relation to all higher education and which acts as a buffer body for state funding and planning for the universities. The Authority has specific statutory functions in relation to advising on the demand and need for higher education, the promotion of equality of opportunity in higher education, the review of university strategic plans, the

review of university quality assurance procedures and the review of university equal opportunities policies and their implementation. In addition the HEA manages the publicly and privately funded third level research funding programme, the Programme for Research in Third Level Institutions (PRTL). The members of the Authority are all appointed by the Government on the recommendation of the Minister for Education and Science. The functions, operation and governance of the Authority are provided for in the Higher Education Authority Act 1971 and in the Universities Act 1997.

Universities

10. The universities were established under a variety of legal instruments – charters and legislation- which date from 1592 to 1989. A comprehensive Universities Act, which was enacted in 1997, now provides an overall legal framework for all the universities.

11. The Universities Act 1997 sets out the functions, objects, and freedoms of the universities together with requirements and accountabilities in terms of governance, management, staffing, planning and reporting. The Act specifically enshrines the concept of academic freedom and firmly positions the universities as autonomous institutions responsible for their own governance and management. In contrast with many other OECD countries, there is no detailed organisational or prescriptive national regime for quality assurance. While the Act specifies the main elements to be included in Quality Assurance mechanisms i.e. self-evaluation, peer review and reporting, the development and ownership of the procedures rests with the universities. The HEA is required to review the quality assurance procedures of the universities.

12. All of the universities are governed by an independent Governing Authority, the composition of which is laid down in the Act.

Institutes of Technology

13. The origins of the institutes of technology sector can largely be traced back to two main sources – new institutions established by the Government in the early 1970s and the development of third level institutions on the foundations of 19th century business and mechanics institutes. The functions organisation and development of the institutes are now legally provided for in the Regional Technical Colleges Acts 1992–1999 and in the Dublin Institute of Technology Act 1992 and 1994. The Dublin Institute of Technology is by far the largest of the institutes of technology and has greater levels of autonomy than the other institutes of technology. Among the reasons for this are its size, range of activities and history. The Institutes are also governed by independent governing bodies, the structure, powers and responsibilities of which are laid down in the legislation.

Relationship between Government and Universities and Institutes

14. Key themes in the relationship between government policy and the institutions in recent times have been the need to balance institutional autonomy with public accountability, the need to broaden the base of access to higher education, the need to ensure an appropriate supply of key skills needed by the economy and society, the need to assure the quality of

higher education and an unprecedented drive to increase the capacity and activity of research in Irish higher education which has been accompanied over the last 4-5 years by a steep increase in state investment in Research in higher education institutions.

15. These themes have been reflected in the legislation and policy documents, introduced by the government and the HEA throughout the 1990s, which has included inter alia the following:

- Dublin Institute of Technology Acts (1992 & 1994)
- Regional Technical Colleges Acts (1992-1999)
- The Universities Act, (1997)
- The Qualifications (Education and Training) Act (1999)
- Charting our Education Future – White Paper on Education 1995
- Report of Steering Committee on the Future Development of Higher Education 1995
- A Comparative International Assessment of the Organisation, Management and Funding for University Research in Ireland and Europe (Report of the CIRCA Group Europe for the Higher Education Authority) 1996
- Access and Equity in Higher Education: An International Perspective on Issues and Strategies 2000
- The Financial Governance of Irish Universities Balancing Autonomy and Accountability 2001
- The University Challenged: A review of International Trends and Issues with Particular Reference to Ireland – by Malcolm Skilbeck, 2001

16. These themes have been reflected also in the relationship between the HEA and the universities and particularly in the approach which the HEA has adopted since the late 1990's to the issues of Financial Governance, Quality, Equality, and Strategic Planning. In all of these areas responsibility was significantly devolved to the universities themselves with the HEA role focussed on assistance, oversight and review of process in the context of best international practice. A key component of the HEA's review of the processes used by the universities has been and will be the inclusion of relevant national and international experts in these reviews.

17. A key aspect of the relationships between the various stakeholders in higher education in recent years has been the development of the Conference of Heads of Irish Universities and the Council of Directors of Institutes of Technology. The interaction between these bodies and the HEA and the Department of Education and Science has furthered the alignment of Government needs and policy with institutional direction, but through a consensus rather than a directional approach. It has also helped address some broad issues of financial management and policy within institutions. These include the development of a harmonised set of financial statements for the universities, development of common approaches to employee relations issues in the institutes of technology and the joint commissioning of studies on the challenges facing universities and on financial governance requirements.

OECD Review: It should be noted that in August 2003 the Minister for Education and Science announced that he had invited the OECD to conduct a comprehensive review of higher education in Ireland. The objective is to lay down a strategy for future excellence for higher education in Ireland at a time of key transition for the sector as a whole. Among other things the review is expected to examine the response of the sector to an increased diversity of needs covering the capacity of the higher education sector for promoting lifelong learning, the transition to the knowledge society, knowledge and technology transfer to the economy and society, supporting spatial strategy, and in meeting the international challenges to learning and research institutions; the ways in which the HEA might facilitate stronger strategic management of the universities and technological sectors; how the institutions might best respond to the needs of their students covering issues of participation, completion and non-standard delivery of services; how best to advance research and development; the appropriate balance between research and teaching; how best to provide the necessary diversification, quality, partnerships and critical masses at both undergraduate and postgraduate levels; how best to deliver on key strategic priorities such as access and institutional transparency; and potential approaches to the resourcing of higher education institutions.

Overall Funding Context

18. Since 1996 the tuition fees of eligible full-time third level undergraduate EU students have been paid by the State on the students' behalf. Before then students paid fees. However a means tested Higher Education Grants scheme was in operation and provided grants to eligible qualified students in respect of either tuition or tuition and maintenance. About 37% of third level students were in receipt of Higher Education Maintenance grants in the year 2000/01.

19. Since the introduction of the state-paid or 'free fees' scheme, the Higher Education Grants scheme continues to operate and to award maintenance grants to eligible undergraduate students and tuition and maintenance grants to postgraduate students. At present part-time students are not eligible either for free fees or for Higher Education Grants.

20. When income from free tuition fees is taken together with state recurrent grants, state funding as a percentage of total recurrent funding (excluding project research) accounts for approximately 80% for the universities and approximately 90% for the institutes of technology. The balance of institutional recurrent funding is derived from a student-paid registration/service charge (EUR 650 in 2003/04), from postgraduate and other student-paid tuition fees, and from "other income" including bank interest earnings. In 2002 the State provided a total of EUR 1.4 billion in recurrent funding to third-level education, accounting for 1.08% of our GDP (estimate only). Included in the total was EUR 239.6 million in respect of "free" tuition fees. In 2002/03 the Department of Education and Science undertook a major review of third level tuition fees and student supports which considered among other things the introduction of some type of student loans system to replace the free fees system. The Minister for Education and Science announced in June 2003 that there would be no charge in the existing system, at least for the present.

21. Legally universities are free to determine the level of their own tuition fees but in practice the fees for full-time undergraduate students are set in agreement with the HEA and the Department of Education and Science. At present there tends to be very little significant variation between universities in the fees charged for full-time undergraduate courses.

22. Until recently the funding of Irish third level education was marked by relatively low levels of public funding for research. This changed in 1998 when the Government launched the Programme for Research in Third Level Institutions (PRTLTI) which is managed by the HEA. This is a competitive programme which provides integrated financial support for institutional research strategies, programmes and infrastructure. To date an unprecedented EUR 600 million has been allocated to third level institutions under this programme which is managed by the HEA. Appendix 1 sets out the details of the PRTLTI scheme.

Method of Recurrent Funding

Universities

23. The HEA allocates core recurrent funding annually through a system of block grants which cover both teaching and basic research. The core recurrent funding allocation to the universities is informed by a formula based unit cost system the main inputs to which are the universities' audited financial statements and certified student enrolments. In addition, a grant is made in lieu of undergraduate tuition fees which is based on course fees multiplied by certified student enrolments. Earmarked funding for increases in the output of graduates with particularly required skills is provided in the form of a grant per additional student. A small proportion of the total amount of the recurrent funding of the universities is distributed through a Targeted Initiatives Funding scheme which is an incentive funding scheme used to promote the development of particular policy priorities of the Department of Education and Science and the HEA. Initiatives which have been funded in the past include major initiatives to widen access, to improve equality, improve retention and completion rates etc.

24. A key strength of the unit cost system is that costs are identified annually to course and even to course-year level per student. The data is robust, based on audited accounts, certified student numbers and teaching contact hours. An added benefit of the system is the detailed internal costing and management information which can be used by the universities in their internal allocation and budgeting systems. It also facilitates the costing of interdisciplinary work by tracking costs to courses rather than to subject departments only.

The current breakdown of HEA funding (2002) to universities is as follows:

	EUR millions	%
Core Grant	358.0	60%
Grant in Lieu of Tuition Fees	178.6	30%
Increased Intake (Skills) Grant	25.7	4%

Targeted Initiative & Other Programmatic Funding	34.1	6%
Total	596.4	100%

Review of Funding Mechanism

25. The HEA is currently undertaking a major review of its funding mechanism which has been in operation since 1993. The aim is to put a framework in place, which will enable the institutions to meet the challenges currently facing higher education while at the same time providing accountability to the various users and stakeholders and which will support the reconciliation of institutional and national educational objectives.

Institutes of Technology

26. The recurrent funding mechanism for the institutes of technology is based on the negotiation of programme budgets between individual institutes of technology and the Department of Education and Science. The system is an incremental system with last year's budget used as the base. Added to this are inescapable increases and any anticipated savings are subtracted. An estimate of income which the institutes themselves will generate from other income is then deducted from the overall estimate of required expenditure to arrive at the amount of grant income required. In addition to this grant a grant in lieu of fees is made based on course fees and certified student enrolments. It is envisaged that the transfer of funding responsibility for the institutes to the HEA will in time involve the introduction of a formula based funding system for recurrent funding as part of a move towards greater autonomy.

Capital Funding

27. Funding for capital projects in both sectors – with the exception of projects funded under the PRTL – is generally allocated on a case by case basis, by the HEA to the universities and by the Department of Education and Science to the institutes of technology. All projects are subject to Ministerial approval. In 2002 as a result of public finance constraints, the Minister paused all capital funding for projects on which contracts had not yet been signed, pending a detailed review of these projects by the Department of Education and Science and the HEA. This review is presently ongoing.

Asset Ownership and Staff Employment

28. All universities and institutes of technology have full ownership of their assets.

29. Universities may appoint such staff as they think appropriate subject to budget. Institutes of Technology require the approval of the Minister for Education and Science for the establishment of new posts.

30. Salaries of university staff must be approved by the Department of Education and Science and must conform to national pay policy. Exceptionally, universities may depart from approved levels of remuneration in accordance with the terms of an agreed framework as

provided for in the universities legislation. Salaries, grades and numbers of staff of the institutes of technology are subject to ministerial approval.

31. Staff of the universities and institutes are not civil servants and their employment contract is with the university or institute rather than with the State. The proportion of university staff holding permanent appointments has decreased since the late 1980s.

CURRENT POLICY CONTEXT

Irish Economic and Social Context

32. The broad context within which Irish higher education operates at present is characterised by rapidly changing social and economic conditions in Ireland. Chief among these are the rate of population change and the rate of change in economic growth.

Demographic Change

33. The Irish birth rate which at 23 per thousand population in the 1970s was about twice the European average is forecast to decline to 13 per thousand by 2016. This means that the annual cohort of second level school leavers from which third-level entrants predominantly come, will decline from around 70 000 in 1990 to about 53 000 by 2015. While the overall participation rate in Irish higher education is quite high at around 50%, new entrants are highly concentrated in the 18-20 year old age group. Over 90% of Irish new entrants fall into this category compared to c.70% for the OECD as a whole. There has been a rapid increase in participation in third level education in the recent past with the “transfer rate” from second level increasing from 48% in 1996 to 56% in 1999. A major initiative to improve access to higher education by under-represented groups including mature students has been undertaken by the Government this year with the establishment of a National Access Office under the aegis of the HEA.

Economic Change

34. Irish economic growth rates from the mid-1990s to 2001 consistently outstripped those of the EU and of the OECD exceeding 8% for four years running from 1997 to 2000 inclusive. During these years public funding for third level increased substantially with significant earmarked funding for a new programme of third level research, for the output of graduates skilled in particular areas urgently required by the economy and by the state and for a new free tuition fees scheme (see Funding below). However in 2001 the rate of growth in GNP dropped back to 4%. During 2002 a reduction was made in state recurrent funding to higher education and replaced by an increase in the student-paid element of tuition fees. (Increased from EUR 190 in 1996 to EUR 650 in 2002.)

Wider Policy Context

35. In common with all OECD systems the Irish higher education institutions face a range of challenges which include:

- Increased competition for students particularly as a result of demographic changes.
- Growing public and governmental concern with issues such as the quality, perceived relevance and value for money of the activities of the institutions as well as concerns with broadening access to higher education – particularly access by older students and those from under-represented socio-economic backgrounds and improving retention.

- The need to respond to growing public policy emphasis on research and development and the need to significantly increase our output of postgraduate students.
- The need to address the changing needs of society for education including e-learning, distance learning, lifelong learning and the internationalisation of education particularly within the EU and including the Bologna process.
- The growing internationalisation of higher education and the recognition of the need to benchmark all activities against best practice internationally.
- The need to diversify funding sources, through increasing the sale of services both nationally and internationally.
- The need to adapt to changing economic circumstances. After years of unprecedented high economic growth, the Irish economy is now growing at a slower pace with likely impacts on public funding.

36. At leadership level within the Irish institutions there is a growing awareness of an increasingly competitive and demanding environment, which is likely to lead to a growing level of differentiation between the institutions particularly, but not exclusively, in so far as research is concerned.

DESCRIPTION OF POLICY INSTRUMENTS

37. Based on the authors understanding of legislative and policy context of higher education which was described in the earlier chapters, and feedback received from the higher education institutions, the key drivers of higher education policy and direction are described in this chapter.

Drivers of Institutional Policy in Ireland

38. Institutional financial management policies are partially driven by national factors including State policy, legislation, and funding. These drivers are outlined below:

- The Department of Education & Science response to issues of financial management for higher education institutions is driven by a combination of legislation and policy. While the Department of Education & Science uses a more directive approach to the Institutes of Technology, the HEA operates a more devolved approach to the Universities within certain legal boundaries whilst using targeted initiatives to further specific state policy
- The recurrent funding of institutions by the State is driven mainly by student numbers, cost and policy requirements. Evaluation of performance and quality is carried out by institutions to ensure continuing high standards, but these measures are not used as a basis for award of funding. While the Universities Act, 1997 and the Qualifications (Education and Training) Act, 1999 address the issue of quality for both Universities and Institutes of Technology, no relationship between quality and funding has yet been established. The PRTLTI and targeted funding initiatives represent the first movement towards award of funding on a competitive basis, based on quality and merit
- All institutions have regard to their responsibilities as prescribed by legislation. They have also been proactive in addressing issues that are not specifically enshrined in legislation. C.H.I.U. and The Council of Directors of Institutes of Technology in cooperation with the HEA and Department of Education & Science have been instrumental in achieving this consensus.
- The HEA has provided support and guidance to Universities for the achievement of best practice in areas such as financial governance and accounting procedures.⁵ Institutes of Technology are subject to Public Sector and requirements on governance, strategic management and procurement. Universities are also required to follow Government guidelines on procurement.⁶
- Management development remains at the discretion of the institutions, but it is encouraged by the HEA through the provision of annual earmarked funding for training. Known as the “Training of Trainers Programme” this programme is part of

⁵ Financial Governance report & Harmonisation of accounts

⁶ 1994 Procurement Guidelines

a national quality assurance measure funded through Ireland's National Development Plan. It focuses on three areas of staff training – pedagogical skills, teaching evaluation and management development for all categories of staff, academic, administrative and services. On foot of the 1997 Universities Act, there is a move towards the selection rather than election of University officers. The Chief Officer of a university (i.e. President) is also the officer accountable to Dáil Éireann (lower House of the Irish Parliament) under the universities legislation for all state funding allocated to the university. The role of Director or President of Institutes of Technology is and has always been an appointed executive position, subject to confirmation by the Minister.

- Monitoring of the financial viability of Institutions of Higher Education is carried out through the HEA (for Universities) and Department of Education and Science through audit of financial statements.
- In the case of Institutes of Technology, the government may intervene if the Institute is at risk due to bad management. Universities have greater responsibility for addressing their own management issues, although legislation also provides for the appointment of a “Visitor” with powers to examine the Universities affairs if necessary.
- A recognition of the central importance of university strategic planning is reflected in the Universities Act 1997 which imposes a statutory duty on university Governing Authorities to require their chief officer “to prepare a plan which shall set out the aims of the governing authority for the operation and development of the university and its strategy for achieving those aims and for carrying out the functions of the university, during the period, being not less than three years, to which the plan relates.” The role of the HEA in relation to university strategic planning as set out in this legislation is to assist the universities, to review their plans, and to publish a report on the outcome of the review. In its role of assisting the universities, the HEA jointly commissioned and published, with the Conference of Heads of Irish Universities, a major review of International trends and issues in higher education with particular reference to Ireland by Malcolm Skilbeck, “The University Challenged”. The publication of this report led to an extensive national debate over the appropriate role and aims of universities.

39. Underpinning the institutions response to these influences and fundamental to their existence is the achievement of quality in teaching and research. As previously mentioned the Irish university quality framework, as provided for in the Universities Act, is one in which there is institutional responsibility for quality assurance with the HEA having a statutory role to review the universities quality assurance procedures. The Irish university quality assurance process is unusual in an international context, in that it covers teaching, research **and** service units e.g. Library, student services, Administrative Offices etc. Overall quality is highly dependent on good governance, effective management decisions, measurement of key indicators and ultimately the financial viability of the institution.

40. Strong institutional management requires planning, action and oversight not significantly different from that of a large corporation competing in the open market. If the institution

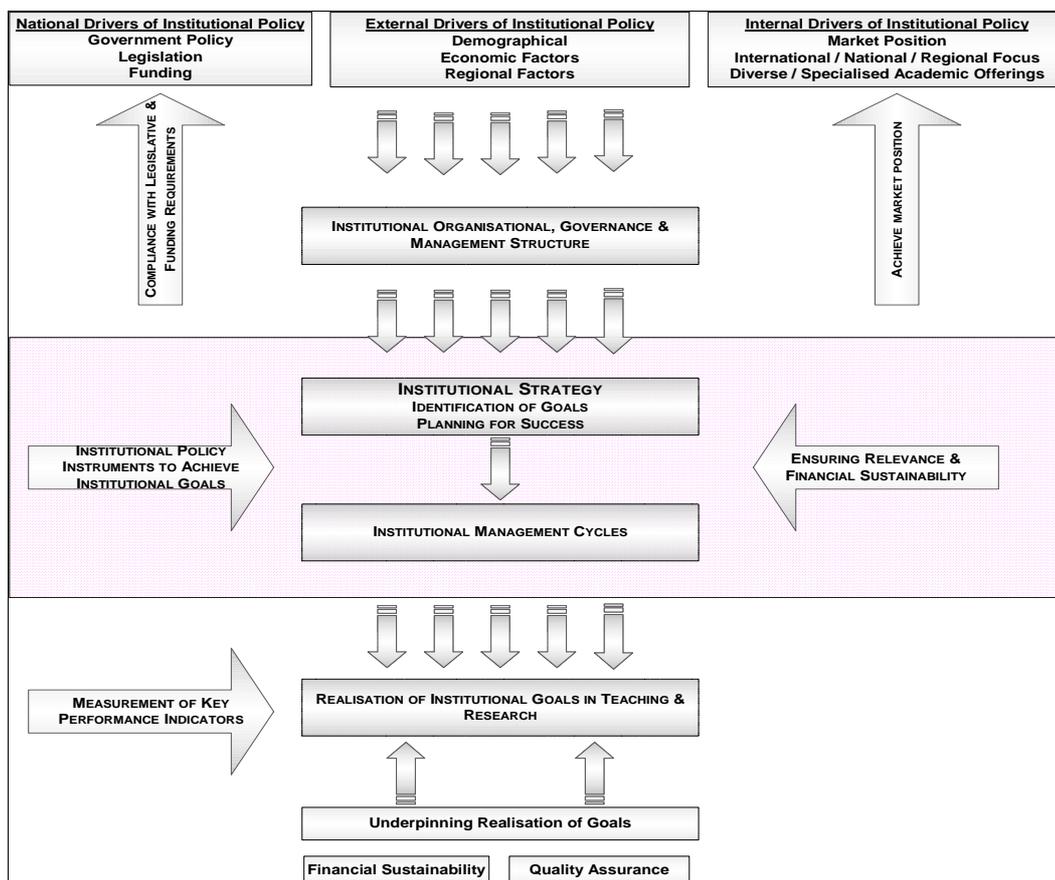
addresses the fundamental aspects of good governance and management that apply in business, then financial viability (subject to favourable market conditions) will be an outcome for that institution. Best practice in financial governance was addressed in the 2001 landmark report by Dr. Tom Higgins, “**Balancing Autonomy & Accountability**”, which was jointly commissioned by the HEA and the Conference of Heads of Irish Universities. All seven Universities have accepted and undertaken to implement the recommendations contained in this report. The recommendations are attached as Appendix 2. They cover the role of the Governing Authority in relation to financial governance, the systems of internal control, the Audit Committee, Internal Audit, Best Practice monitoring and application, and a procedure for annual verification to the HEA that no material weaknesses have been identified at audit, or detailing any that have, together with the actions taken to rectify them.

However, these factors are not the only drivers of higher education management policies and practices. Other drivers like demography, national or local economics and internal institutional factors such as market positioning also play a role. These three drivers, the interplay between them and the influence on institutional financial management are described and discussed below.

Relationship between Higher Education Policy and Institutional Management:

The internal management policies and financial management practices of Institutions arise from the factors described above and as illustrated in figure 3.2 below:

Figure 3.2. Relationship between drivers of Higher Education Policy and Financial Management of Institutions



National Drivers of Institutional Financial Policy and Management

41. State legislation makes certain requirements of both Universities and Institutes of Technology in terms of planning, governance, reporting and financial management but also underlines institutional autonomy regarding their activities and academic direction. As a result, outside of the award of special targeted funding and PRTL research funding, institutions may allocate recurrent funding according to their budgetary needs.

42. Universities are therefore free to generate other income. A specific objective of the existing HEA recurrent funding mechanism has been to provide incentives to universities to generate other income. Income earned from fees of overseas students is taken into account only to the extent of the economic cost of such students. Income earned in excess of such costs may be used at the discretion of the universities for development purposes. It should be noted that in order to facilitate the institutions in maximising the benefits from participation in

international education, the HEA this year published a study “Provision of Undergraduate and Taught Postgraduate Education to Overseas Students in Ireland”, examining the strategic positioning of Irish higher education in relation to international education. This study proposes the establishment of a new “Strategy Board for International Education”. The aim of the Board will be to develop and enhance the education of overseas students in Ireland by providing leadership, a focal point and coordination. The Board will also be an enabling mechanism for the individual HEIs and other agencies, and will help to fill gaps in the existing national institutional arrangements, if required.

43. Universities may also borrow⁷ within parameters set out in an approved framework as required by legislation. Internally universities may allocate resources at their own discretion, subject to a legislative requirement that describes governance responsibilities of the Universities and prevents them from running an annual budgetary deficit. Institutes of Technology are also free to create income and allocate resources, but within the approval and oversight of the Minister for Education and Science and within the legislative boundaries that prevent them from borrowing or running a deficit.

44. The HEA carries out research to inform development of the higher education sector as part of their statutory remit, the outcome of which influences the development of targeted funding initiatives, and award of that funding to institutions.

External Drivers of Institutional Financial Policy and Management:

45. Within the context of State legislation and policy, factors such as demographics, national and regional economic needs and cultural or societal trends influence the direction and management requirements of the Institution. The importance of these factors is all the more significant, given the reliance on State funding to third level education in Ireland.

Demographics:

46. Perhaps the biggest challenge facing third level institutions is a projected fall of 36% in numbers of school-leavers between 1998 and 2012⁸. This compares with decades of increases in the number of students attending third level education. (There were approximately 19 000 third level students in the mid-60’s, 64 000 students studying at third level in 1990 compared to approximately 120 000 at present⁹.) During the period of growth, particularly over the last decade, institutions and the State responded positively to the increased demand for third level education. This response was the physical expansion of existing institutions, creation of new campuses and provision of an increased number of student places. As the number of school-leavers begins to decline, institutions must address the following issues:

- Increased competition to attract and retain the best students.
- Increased pressure to fill college places. Already, some Irish institutions do not fill the quota for every course. This failure to gain the maximum level of student intake

⁷ Within the limitations of the Borrowing framework

⁸ From “The University Challenged – A Review of International Trends and Issues with Particular Reference to Ireland” by Malcolm Skilbeck , Funded by HEA & C.H.I.U.

⁹ Department of Education, Higher Education Authority Statistics.

will have a direct and significant impact on institutional income and quality of course.

- The need to redress shortfalls in student numbers and funding sources by alternative activities.
- Opportunities for wider access for mature, disadvantaged and minority groups. Possibly through provision of more part-time, distance or outreach learning.

Economy

47. A co-dependent relationship exists between third level education and economic conditions. Thus the economic boom enjoyed in Ireland over the past five years in part funded a major increase in State funding of third level education.

48. Irish economic growth has had a particular focus on the technology sector and the higher education sector had anticipated this before the period of rapid economic growth by taking action to quickly expand their technology offerings to students. The provision of highly qualified graduates in this and other areas was essential in underpinning the new economic growth. However, the relationship between the economy and provision of third level education may not always be so positive and presents institutions with the following issues:

- The need to foresee and address institutional vulnerability and financial risk in times of restricted State spending.
- The need to establish a position and take a lead role in economic development, at a regional, national or global level.
- The requirement to respond to and benefit from long-term and short-term needs of the national economy and students without risking either the reputation or the financial viability of the institution.
- The need to maximise non-State funding by locating alternative sources of income. This may be from ancillary activities, increased intake of non-EU students, or research.

Societal & Cultural Issues

49. Over recent years Ireland has begun to evolve into a multi-cultural nation, becoming home to emigrants from all over the world. At primary level, schools have already addressed both the benefits and risks associated with this extension of our society. The issues facing higher education institutions in relation to these changes include the following:

- The need to give greater attention to the specific educational requirements of other cultures, specifically the heritage, religious and language requirements of cultures not previously addressed in the Irish system of higher education.
- The need to address and correct fears, assumptions or prejudices regarding other cultures not previously addressed in the Irish education system.

- The requirement to address potential or emerging social problems arising from the changes in society.

Overarching Issue Arising from Demographic, Economic and Societal/Cultural Issues

50. Arising from all of the above trends the Minister for Education and Science recently requested the Authority to undertake an examination of the changing trends in disciplinary balance in the higher education sector. This study, which is not yet finalised, examines how current structures within the higher education system balance programme provision to meet national economic, social and cultural needs. The study identifies process options to ensure that the composition of the student population in terms of subject or disciplinary balance, is reflective of national economic and social needs, as well as being responsive to the educational and personal development needs and preferences of students. The proposed process option currently under consideration in the HEA would continue to underpin institutional autonomy in relation to decisions on new programme provision (with provision for review of the operation of new and existing programmes) and with the HEA role again focussed on process validation. A required process of institutional stakeholder consultation would form part of the institutional decision process.

Internal Drivers of Institutional Financial Policy and Management

51. As the provision of higher education becomes more competitive and outward looking, institutions can no longer afford to continue in a role that may have evolved over time from its historical or traditional role. This is reflected in the legislative requirement to develop institutional plans, measure progress and ensure quality of teaching and research. Some aspects of internal direction that must be addressed by each institution are outlined below:

Issues Arising for Institutions from Internal Factors

- The need to identify an appropriate market position, to compete well within that market and to ensure consistently high levels of quality. There will be a direct relationship between those institutions who achieve market success and those who are successful in assuring financial sustainability.
- Focus on specialised academic offerings may lead to an increased opportunity to become a leading institution in that academic area. However, this approach may expose an institution to greater risk than institutions with a more diverse offering.
- The need to identify and build a diverse range of activities, consisting of academic and non-academic offerings, thus building sources and quantity of income enjoyed by the Institution and level of independence arising from these sources of income.
- The need to manage assets held by the institution, thus ensuring maximum value and cost-effectiveness and the ongoing sustainability of the institution.
- To date the indirect costs of a greatly expanded programme of major project research have been very inadequately funded and have been effectively provided for through core budgets. However this problem has now been addressed at a national level

through the work of a joint HEA/Forfás¹⁰ Steering group. The report of the Group on Research Overheads 2003 proposes a policy framework comprising representatives of all funders and providers of publicly funded research in Ireland, which has been agreed in principle by all parties, and which provides a mechanism to fund the direct and indirect costs of research that can be used by public funding agencies, the third-level institutions and public research bodies to give appropriate return for Exchequer research investment.

The framework does this by providing a method for:

- Calculating both the direct and the indirect costs of research (which is based on audited financial statements rather than on recording academic time).
- Enabling funding agencies to allocate these costs to funded research projects.
- Distributing overhead funds within the research organisations.

52. The framework provides a system that is cost effective and efficient, has a strong competitive element, and is based on objective criteria. It takes account of the different funding streams within and between agencies. The aim is to create a flexible formula for funding overheads that can be adapted to changing circumstances.

53. Some Universities may also face greater restrictions than others with regard to traditional or historical barriers or culture of enterprise that may or may not exist within the institution. Institutes of Technology face the challenge of growing or sustaining their institution within the framework of the legislation, the specific needs of its student population or regional economic strengths and weaknesses. Ultimately, the achievement of quality in all aspects of teaching and research will be central to any institution's success, whatever market position is assumed by the institution. Those institutions who maintain a focus on market relevance, excellence and quality assurance in delivery of education effectively create the basis for financial sustainability and ongoing success.

Why is Financial Sustainability so Important?

54. A recent review of international issues in higher education with a particular reference to Ireland¹¹ observed that "The University is no longer a quiet place to teach and do scholarly work at a measured pace and contemplate the universe as in centuries past. It is a big, complex, demanding, competitive business requiring large scale ongoing investment". It is for precisely this reason as well as the range and complexity of challenges that financial sustainability is so important for Universities and Institutes of Technology. Those institutions that are financially healthy will maximise their flexibility to respond to the challenges outlined below:

- Maximise quality of teaching and research carried out by the Institution:

¹⁰ Forfás is the statutory body with responsibility inter alia for providing policy advice to government on enterprise, trade, science, technology and innovation.

¹¹ From "The University Challenged – A Review of International Trends and Issues with Particular Reference to Ireland" by Malcolm Skilbeck, Funded by HEA & C.H.I.U.

- Building and sustaining the Institution’s reputation
 - Minimising negative impact of trends in demographics or other external influences.
- Respond in a timely and positive way to external influences, thus maintaining relevance of the Institution.
 - Changes to Government Policy
 - Demographical trends
 - Economic trends
 - Cultural and societal trends
 - International developments
- Identify and create a foothold within a given market, whether international, national or local
 - Maximise competitiveness within their market position

EVALUATION OF FINANCIAL MANAGEMENT ACTIVITIES BY IRISH HIGHER EDUCATION INSTITUTIONS

Institutional Financial Governance and Management Practices:

55. Within the policy and legislative framework described in Section “*Description of Policy Instruments*”, the financial management practices of Universities and Institutes of Technology were assessed. A detailed questionnaire addressing key aspects of financial management was circulated to all relevant Universities and Institutes of Technology and their responses were reviewed and collated by the author. Summarised below is an overview of the key elements of financial governance and management practices within Irish institutions with a broad assessment of their strengths and weaknesses. **This overview is drawn purely from the author’s interpretation of institutional responses rather than our own assessment of institutional practices.**

56. Here, for the purposes of achieving an overall view of the Irish Educational system, no distinction has been made between Universities and Institutes of Technology.

Figure 4.1 Assessment of strengths and weaknesses in the Financial Management and Governance of Irish Institutions of Higher Education

ASPECT OF MANAGEMENT	DRIVER OF POLICY	STRENGTH IN INSTITUTIONAL POLICY & APPROACH	WEAKNESS IN INSTITUTIONAL POLICY & APPROACH
Governance & Organisational Structure	<ul style="list-style-type: none"> • Legislation • Historical approach 	<ul style="list-style-type: none"> • Clear allocation of executive responsibility. • Formalised policies and procedures regarding key issues. • Strong use of committees for governance and oversight. 	<ul style="list-style-type: none"> • Within universities, there may be some separation between academic decision makers at faculty or departmental level and the central administration or finance functions. Universities are however moving towards addressing this issue.
Risk Management	<ul style="list-style-type: none"> • Legislation • Level of Exposure • Internal Policy. 	<ul style="list-style-type: none"> • Strongest for research and ancillary activities. • Development of formalised risk policy for Universities. • Internal audit function addresses aspects of risk. • Underperformance on budget and legal or regulatory non-compliance risk recognised. 	<ul style="list-style-type: none"> • Lack of formalised risk policy for Institutes of Technology. • Many institutions do not consider that they are exposed to significant risk. • Academic teaching and instruction not viewed as a risk area.

ASPECT OF MANAGEMENT	DRIVER OF POLICY	STRENGTH IN INSTITUTIONAL POLICY & APPROACH	WEAKNESS IN INSTITUTIONAL POLICY & APPROACH
Long-term Financial Planning	<ul style="list-style-type: none"> • Internal Policy & Strategy • Available resources 	<ul style="list-style-type: none"> • Institutions have almost full discretion over allocation of recurrent income. • Strategic planning requirements prompt long-term financial planning. • Oversight lies with Finance Committee and responsibility with Bursar / Financial Controller. Ultimate responsibility lies with Accounting Officer (President or Director of Institution). • Planning for non-core activities driven by academic plans and academic input. • Large proportion of income and expenditure focussed on academic activities. 	<ul style="list-style-type: none"> • Not all institutions carry out long-term financial plans. • Long-term financial planning is not facilitated by State funding system, which allocates budgets on an annual basis. • Unclear who ensures alignment of financial plans with strategic plans within the institutions.
Short-Term Financial Planning	<ul style="list-style-type: none"> • Legislation • Internal Policy & Strategy • Available resources 	<ul style="list-style-type: none"> • Budgetary committee oversees short-term financial planning. • Frequent assessment of budget versus expenditure. • Ability to redirect resources in response to variations in expected incomes. • Formalised approach to address deviations in budget. • Most Universities have devolved budgetary responsibility. • Institutional goals are generally set with financial targets and faculties or departments are obliged to work within their budgets. 	<ul style="list-style-type: none"> • Short-term financial planning may be hindered by late changes to funding allocation from State.
Capital Planning	<ul style="list-style-type: none"> • State Policy • Internal Policy & Strategy • Available resources 	<ul style="list-style-type: none"> • Formal framework, strategy and procedures for capital expenditure. • Borrowing either not permitted or subject to agreed borrowing framework. • Procurement procedures ensure value-for-money. • Thresholds exist to ensure central consideration of proposed major capital spending at faculty or departmental level. 	<ul style="list-style-type: none"> • Recurrent income has had to be used for capital purposes. • Increased maintenance costs associated with capital expansion may not be measured or provided for. • Dependent on State Policy.
Accounting Systems	<ul style="list-style-type: none"> • Internal Policy & Strategy • State funding • Available Resources 	<ul style="list-style-type: none"> • Systems support devolved management. • Some institutions generate and use relevant financial management information. • Systems upgrade underway in many institutions. 	<ul style="list-style-type: none"> • Management reporting capability varies. • Limited capability to measure performance indicators • Pressures on financial staff can limit institutional ability to generate management information.

ASPECT OF MANAGEMENT	DRIVER OF POLICY	STRENGTH IN INSTITUTIONAL POLICY & APPROACH	WEAKNESS IN INSTITUTIONAL POLICY & APPROACH
Cost & Resource Allocation	<ul style="list-style-type: none"> • Internal Policy • State Funding Mechanisms 	<ul style="list-style-type: none"> • Freedom to allocate costs and resources as considered appropriate. • Cost allocation mechanism used by all institutions, but sophistication varies. • Many make projections regarding future cost bases. • Resources allocated in line with institutional goals. • Budgetary monitoring process is critical in ability to divert resources as necessary. • The question of securing funding for the indirect costs of project research has been addressed this year at sectoral level by a high level group representing all the major public funders of research and all third-level research providers. The group recommended as an interim measure that all research grants include an overhead rate of 30% of modified total direct costs. 	<ul style="list-style-type: none"> • Indirect and overhead costs of research or ancillary activities can be met from recurrent income. • Unit-cost data even if generated is not always used to inform the allocation of funds internally. • Some institutions do not have a defined automated resource allocation model. • Lack of differentiation between income streams when allocating resources. Thus activities that give more return may not be recognised as such or receive sufficient support. • High level of inflexibility in mechanisms. Thus once allocated, resources are often not transferable even if change is required.
Management of Funding	<ul style="list-style-type: none"> • State Policy and Funding Mechanisms • Internal Policy & Strategy 	<ul style="list-style-type: none"> • All Universities and some Institutes of Technology engage in activities that generate alternative sources of income. • These activities are self-financing. • Accounts will be consolidated by year end 2003 as part of the next phase of the harmonisation of accounts • Most common income-generating activities are research, catering, campus companies, residences, investments & bank interest, and non-EU students. • Larger Universities appear to have more diverse range of activities. 	<ul style="list-style-type: none"> • Institutional funding still very reliant on student numbers and student mix – • As a result institutions rely primarily on State funding. • At present Universities report ancillary activities separately, which although limiting the institutions exposure, can make oversight more difficult. • Institutes of Technology are not permitted to borrow thus while they have lower levels of risk associated, find it more difficult to expand.

ASPECT OF MANAGEMENT	DRIVER OF POLICY	STRENGTH IN INSTITUTIONAL POLICY & APPROACH	WEAKNESS IN INSTITUTIONAL POLICY & APPROACH
Asset Management	<ul style="list-style-type: none"> • Legislation • State Policy and Funding Mechanisms • Internal Policy 	<ul style="list-style-type: none"> • All Universities and most Institutes of Technology have an asset register • Institutions exercise full ownership over their physical assets. • Common approach to asset depreciation. • Clearly defined approach to asset valuation. • Sufficient insurance, which is reviewed annually. • Assets tend not to be encumbered by loans. • Full consolidation of university accounts will be introduced from 2002/03 on. 	<ul style="list-style-type: none"> • Not all Universities take the same approach to asset valuation. • Unconsolidated reporting on ancillary activities can bring a lack of clarity regarding asset ownership by Universities.
Research	<ul style="list-style-type: none"> • State Policy (PRTL Criteria) • Internal Policy 	<ul style="list-style-type: none"> • Research committees to take a strategic approach to research advancement. • Responsibility of the Governing Authority in relation to research activities is quite clear. • Research Centres established to align expertise, and create income. • University Heads on Research Centre Boards. • Frequent reporting of research information. • Formalised research policies and procedures. • Harmonisation of Accounting for Universities is leading to more clarity in reporting of research activities. 	<ul style="list-style-type: none"> • Overheads from some research projects (e.g. EU-funded) met from institutions funds. • Research Centres operate as separate entities. This can result in a risk of weak controls. • Lack of common approach to managing and reporting research activity. (However, this is expected to be addressed in the next harmonisation of accounting procedures).
Ancillary Activities	<ul style="list-style-type: none"> • Internal Policy • Legislation 	<ul style="list-style-type: none"> • All Universities and many Institutes of Technology carry out ancillary activities. • Bursar or Financial Controller is represented on Boards of all ancillary companies. • Recurrent funding not used to finance any ancillary activities. • Policy for ancillary activities safeguards charitable status of institutions. • Formalised policies and procedures for setting up companies, staff consultancy. 	<ul style="list-style-type: none"> • Responsibility of Governing Authority in relation to these is unclear for some institutions. • Institutes of Technology less active in ancillary activities than Universities. • Proposed ancillary activities tend not to be assessed for conflict of interests with other institutional activities or policy. This may present risk to the institutions reputation or legal position. • Separate reporting leads to lack of clarity and transparency. This is expected to be addressed in the next round of harmonisation of accounting procedures.

ASPECT OF MANAGEMENT	DRIVER OF POLICY	STRENGTH IN INSTITUTIONAL POLICY & APPROACH	WEAKNESS IN INSTITUTIONAL POLICY & APPROACH
Intellectual Property	<ul style="list-style-type: none"> • Internal Policy • Legislation 	<ul style="list-style-type: none"> • All Universities have policy regarding intellectual property and ownership. • Most Universities generate income from IP. 	<ul style="list-style-type: none"> • Only some Institutes of Technology have an Intellectual Property policy. • No Institute of Technology reported income from Intellectual Property agreements in year-ending September 2001. • Not all institutional IP policies have addressed ownership of copyright and/or software.
Reporting	<ul style="list-style-type: none"> • Legislation • Available resources • Internal Policy 	<ul style="list-style-type: none"> • All institutions operate under a formal financial reporting calendar. • All institutions carry out monthly financial reporting in some given form. • All Universities adhere to the Harmonisation of Accounts agreement. • Institutes of Technology report their ancillary activities as part of college financial statements. • Strategic Plans – All universities are required by legislation to prepare strategic plans for periods of not less than 3 years. The HEA has a formal rule to review and report on strategic plans. • Financial Governance Verification – All university heads must report annually to the HEA on the adequacy of financial governance • Borrowings – All universities must report annually to the HEA the details of all borrowings undertaken in accordance with an approved Borrowing Framework. 	<ul style="list-style-type: none"> • There appears to be a lack of comprehensiveness in monthly financial and management reporting in some institutions. • Content of monthly, quarterly or more frequent reporting not always consistent between institutions. • Universities report financially independent companies separately.

ASPECT OF MANAGEMENT	DRIVER OF POLICY	STRENGTH IN INSTITUTIONAL POLICY & APPROACH	WEAKNESS IN INSTITUTIONAL POLICY & APPROACH
Internal Control	<ul style="list-style-type: none"> • Available resources • Internal Policy 	<ul style="list-style-type: none"> • All institutions have an Audit Committee with formally agreed terms of reference and reporting directly to the Governing Authority. • Most institutions have documented and formalised roles and responsibilities for financial management. • All institutions have separation of key functions such as recording of cash transactions and cash receipt processing. • Strong use of external expertise for internal audit function. • Comptroller & Auditor General examines institutions for accuracy of reporting and compliance with regulatory requirements. • Both Universities and Institutes of Technology are addressing their internal audit requirements currently. • All seven Universities have undertaken to fully implement the recommendations of the HEA's best practice financial governance document which addresses Internal Audit. • The thirteen Institutes of Technology have a common Internal Auditor allowing sharing of issues and experiences across the sector. 	<ul style="list-style-type: none"> • Most institutions do not have comprehensive documented policies regarding roles, responsibilities and components of internal control function. • Frequency of internal audit reviews varies between institutions.

Preserving the Financial Sustainability of Higher Education Institutions:

State Action

57. Despite varying levels of higher education funding as a result of national economic circumstances over the years, no University or Institute of Technology has been in a position such that it is unable to continue to operate, thus State intervention has never arisen as a matter of necessity. Where financial difficulties have arisen, the situation is somewhat different depending on whether the problem lies with a University or an Institute of Technology. The State does not interfere in the management and governance issues of Universities. However, in recent years, the accountability of institutions to Government through the Public Accounts Committee of the Oireachtas Irish Regislature has risen substantially.

58. The Department of Education and Science has the power to intervene in the affairs of an Institute of Technology should it be considered to have serious financial governance or management issues. This has only occurred once in the 1990's when a commission was engaged to assume the governance and management duties of the college due to specific issues of poor governance and management. This intervention was short-term and a governing authority was appointed after the issues had been addressed.

59. As indicated above, all institutions of higher education are accountable to the Public Accounts Committee as recipients of public monies. Audit and review by the Comptroller & Auditor General's office also aids the identification of issues regarding financial sustainability and regulatory compliance.

60. University financial deficits must be addressed as a matter of priority each year. The funding mechanisms employed by the State tend to cushion either the positive or negative impact of the external environment or any changes to unit-cost data

61. While there is no formal State policy regarding the protection of these institutions from financial crises, the fact that the system of Higher Education is not open to entry by new providers would suggest that the State would offer a certain degree of protection to a public institution encountering financial difficulties.

Institutional Action

62. Internally, the Governing Authority has oversight authority and ultimate accountability for institutional management and performance with daily responsibility delegated to the President or Head of the Institution. Through the establishment of committees with clearly defined terms of reference, policies, and procedures oversight is maintained and issues such as exception reporting addressed.

63. The management of ancillary activities as separate companies is a measure taken to minimise risk to the institution. Most institutions also have a policy that requires separate companies to be self-financing. This also offsets some of the risk the institution may be exposed to. Nonetheless, ancillary activities, particularly within Universities, may present a challenge in terms of ensuring financial viability for the following reasons:

Possible Financial Risk Arising from Ancillary Activities

- Ancillary activities are beginning to account for a greater proportion of institutional activity and income. Therefore a greater proportion of institutional income is dependent on more high-risk activities.
- Where commercial entities once comprised mainly of services (such as catering), a broader and more sophisticated range of ancillary activities is now arising. This diversity brings with it, increased opportunity but also greater risk.
- Most institutions treat ancillary entities as separate companies with separate board and financial reporting. The reason for this is to minimise risk incurred by the institution as a result of these activities. Although most institutions ensure that a member of the governing authority is represented on the board of the ancillary company, this separation may carry a risk of oversight failure.
- Ancillary companies may not carry out the same level of strategic or financial planning required of the main institution.

Possible Future Developments

64. Institutes of Technology are currently preparing to be brought within the remit of the HEA. This development will give rise to the need for legislative change for this sector. This will also bring about requirements for Institutes of Technology in terms of generating management information such as unit-cost data. The harmonisation of accounting procedures is ongoing and aims to lead to further consistency in financial reporting practices of Universities. (A key element to be addressed is the consolidation of financial reports to include more comprehensive reporting on ancillary activities).

Overall Effectiveness of Institutional Financial Management:

65. While the assessment of financial management practices has highlighted some weaknesses, the ongoing financial sustainability of Universities and Institutes of Technology remains a fact. Irish institutions have remained financially viable while ensuring a world-class education for their students and producing graduates of world-class quality. The challenges now facing Irish higher education institutions are not the same as before. As a result, institutions cannot afford to assume that levels of management and oversight that sufficed before will be adequate in the future. And indeed this has been explicitly recognised in the recently introduced financial governance procedures under which universities are committed to reviewing and adopting relevant best practice in financial governance on an ongoing basis. However, sustaining financial viability is not an end in itself, but a necessary component for the achievement of quality, relevance and academic advancement. With this in mind, the following section contains an analysis of the strengths and possible weaknesses of institutional financial management policies for higher education and their influence on the institutions future advancement.

ANALYSIS OF HIGHER EDUCATION FINANCIAL MANAGEMENT POLICIES & PRACTICES IN IRELAND

66. The provision of third level education through the Institutes of Technology, under the direction of the State has proven effective, opening up higher education opportunities to many students who previously would not have progressed beyond second-level. Universities while not subject to the same level of direction have provided world-class graduates regardless of the degree of financial constraint for several decades.

67. Through a process of cooperation and direction within the sector, many policy issues in higher education have been successfully addressed. However there is now a significant fall-off in the number of students studying science (chemistry and physics) at second level and this is being tackled through cooperation between institutions and industry as well as through the work of the Government Taskforce on the Physical Sciences. In recent years, Ireland has been ahead of other OECD countries in terms of numbers of graduates of technology or sciences¹².

68. In the context of the role of higher education institutions in addressing current issues, responding to external influences, and government policy, institutions that practice good financial governance and management will meet the following criteria:

Criteria for Assessing the Effectiveness of Financial Governance & Management in Higher Education

- The ability of an institution to develop a strategy that is appropriate to its current or desired market position, and carry out financial planning that aligns appropriately with that strategy.
- The Institution's ability and effectiveness in addressing drivers of financial management policy including costing and pricing issues, as identified in section "*Description of Policy Instruments*".
- Efficiency in managing assets and deriving maximum value from them.
- Planning to control and drive academic advancement and build reputation.
- The ability to recognise and manage key areas of risk and act on potential financial issues before they affect the institutions viability.
- The ability to respond in a proactive way to issues of financial viability when they arise.

69. The Irish system of higher education was assessed for its relative strengths and weaknesses under these criteria, the security or risk it presents and the institution's ability or effectiveness in ensuring its own financial sustainability. Finally, issues concerning future

¹² OECD Education at a glance – 2002 places Ireland as having a higher proportion of maths and science graduates than other OECD countries.

international, national, or other developments, opportunities and risks for higher education institutions are discussed in section “*Conclusion & Final Comments*”.

Strengths and Weaknesses of Financial Management Policy in Irish Higher Education

70. This assessment of financial management policy in relation to Irish Universities and Institutes of Technology provides a useful comparison of the approach to higher education policy taken by the State to the two types of institution. There are strengths and weaknesses associated with this approach which are summarised below:

Strengths of National Higher Education Policy in Promoting Good Financial Management for the Achievement of Institutional Objectives

- The 2001 document “Balancing Autonomy with Accountability” created the framework for effective financial governance in Irish Universities. All universities have signed up to the recommendations and will implement them. The framework will be reviewed within three years.
- The requirement of institutions to produce balanced budgets on an annual basis ensures that issues of poor management or lapses in good financial governance are highlighted on an annual basis.
- The HEA may attach conditions to funding that will help limit unnecessary or excessive risk.
- Key aspects of good governance and senior management for Universities and Institutes of Technology are contained in legislation, thus ensuring that all institutions have a suitable governance framework in place.
- The basic requirements of good university management including strategic planning, budget preparation, reporting and quality assurance are all underpinned by the Universities Act 1997 which imposes a statutory obligation on university governing authorities to require the Chief Officer to prepare a strategic plan, to establish quality assurance procedures and to establish an equality policy and procedures. The HEA has a statutory role to review these procedures and report thereon. In relation to budgetary matters, the legislation also makes it a requirement for the Chief Officer to inform the governing authority if she/he is of the opinion that a deficit is likely to arise. In the event of the governing authority deciding to proceed with its course of action, the Chief Officer is obligated to inform the HEA. In the event of a deficit actually occurring, it must be the first charge on the budget for the next succeeding financial year.
- Universities and Institutes of Technology are encouraged to carry out research and ancillary activities in order to build the institutions income and reputation.
- All institutions have full ownership over all of their assets and are free to allocate resources as considered appropriate. This gives institutions the potential freedom to increase their income.
- All institutions must address financial deficits as they arise, thus ensuring that potential or actual financial difficulties are not neglected over a period of time.

- The Programme for Research in Third Level Institutions (PRTLTI) and the Technological Sector Research Initiative have supported institutions in developing a strategic approach to their own research policies and practices and has encouraged greater levels of collaboration with each other and with industry. PRTLTI, which is managed by the HEA and has a budget in excess of EUR 600 million including significant private donations has succeeded in establishing world class and significant centres of research excellence and builds the capacity for advanced research by providing foundation rather than incremental funding. The proposals are evaluated by an international panel of distinguished researchers and scholars on the basis of excellence under three criteria – strategic planning (including inter-institutional collaboration), research quality, and the impact of the research strategy and programmes in improving the quality of teaching in the proposing institution. One of the requirements of the competition is that the institutions prepare and submit strategies for research and identify institutional priorities.
- The Comptroller & Auditor General audits all the financial statements of the Institutes of Technology and Universities, thus providing consistent oversight of financial management practices and highlighting issues to the Minister as they arise.
- Universities may operate within a framework agreed with the HEA allowing certain freedom with regard to staff employment terms and conditions, thus allowing them to attract and retain world-class academic staff and researchers.
- The question of the need to establish a co-ordinated system to ensure appropriate programme provision to meet the needs of stakeholders is being addressed by the HEA at present and a process has been proposed which would copperfasten institutional autonomy while ensuring the necessary responsiveness to national needs and the required level of accountability.
- The HEA University funding mechanism is informed by robust detailed unit cost data which is analysed at course level per student.
- The issue of how best to maximise the benefits from international education is being addressed by the HEA and a proposal to establish a national strategic entity to bring coherence to this area is at present under active consideration by the HEA.
- Innovative means for financing capital developments have been pursued by Irish higher education institutions. Tax based financial instruments have been used to finance the building programme associated with the first and second cycles of the Programme for Research in Third Level and also for a very significant expansion of the stock of student accommodation. In addition the Universities Act 1997 provides for the establishment of an approved framework for University Borrowing under which, subject to certain conditions, universities may borrow, guarantee or underwrite a loan in accordance with a framework to be agreed with the HEA in consultation with the Ministers for Finance and for Education & Science.
- The issue of overtrading in relation to unfunded indirect costs of project research has been addressed at a high level by all major public research funders and third-level providers and a proposed system to identify and adequately fund these costs has been argued on principle.

- The HEA recurrent funding system which has operated successfully for the last 10 years is at present being reviewed by a task force set up by the Authority in the context of the current challenges facing higher education in Ireland and internationally. The challenges specifically identified in the review proposal include increased competition for students, broadening access, resourcing lifelong learning, quality, relevance and value for money, alternative modes of delivery, growing public policy emphasis on research, impact of internationalisation, the need to diversify funding sources, the need to balance institutional autonomy with meaningful accountability. Any revised funding mechanism is expected to have a core element linked to student numbers allocated as a block grant, performance related funding and competitive based funding.

Weaknesses of National Higher Education Policy in Promoting Good Financial Management

- There is no overarching documented State policy on higher education financial management. However, legislation and State policy does cover key aspects and is brought together, primarily through the HEA.
- All institutions are reliant on State recurrent funding and student fees as their major source of income.
- There is a rigidity of cost-base in many institutions that makes it difficult to be flexible in reallocating resources to priority needs or to react in a timely way to new requirements.
- All Institutions are susceptible to external issues such as economic policies or climate, demographic trends. In particular, Institutes of Technology that provide for the needs of the local population are exposed to these trends.
- State higher education funding is informed by unit-cost data for Universities but not Institutes of Technology.
- The provision of targeted funding for special initiatives is driven by specific policies. Institutions tend to apply for all of these funds without considering possible negative implications (for example under capacity, fit with institutional strategy).
- The setting of annual budgets is frequently hindered or altered by the lack of timely information regarding the final value of State funding to that institution. The lack of multi-annual budgeting also inhibits institutional planning.
- Existing procedures do not yet address the issue of reporting of ancillary activities, thus creating a potential area of risk. However this is being addressed with effect from the current (2002/03) financial year in the new Harmonisation of Accounts agreement under which a revised/consolidated format for university financial statements will be introduced by all universities.
- Generation of ancillary income by an Institute of Technology impacts the level of State grant awarded to that institution. This is perceived by Institutes of Technology as a disincentive to undertake the risk associated with setting up an ancillary activity.

71. The relative freedom given to institutions to Universities to determine individually their strategic focus in both the areas of education and research provides them with the opportunity to set and achieve ambitious goals, whether to become a world leader in research or the leading provider of third-level education in a given discipline. Clearly, the freedom to choose its own direction and succeed is matched by the potential to fail, damaging the institutions reputation and possibly leading to the cessation of particular activities.

72. State policy and legislation encourages Institutes of Technology to develop research, teaching and commercial enterprise.

73. Universities enjoy an autonomy that is balanced by public accountability. HEA oversight (which includes review functions in relation to strategic planning, quality assurance procedures and equality of opportunity policies) and final oversight and monitoring of governance processes, coupled with good internal management should be sufficient to enhance financial sustainability. This should also be sufficient to give institutions the ability to survive external pressures (such as economic downturn), and become a market leader or create new opportunities and build its reputation.

74. The level of protection that would be provided at a national level in the event of a University or Institute of Technology incurring severe financial difficulties remains yet to be seen. The State can attach guidelines to its funding that will ensure institutions do not undertake unnecessary or excessive risk. While there is no doubt that the State will allow some flexibility to institutions to undergo short-term financial difficulties, it does require institutions to take action in the event of recurring problems.

Future Opportunities and Risks:

75. Current challenges facing higher education are no longer the same as those faced historically by Irish institutions. The issues outlined below that face all Irish institutions present both opportunities and risks, depending on how each institution is positioned to deal with them. The current financial viability and relative independence of each institution will imp Opportunities and Risks facing Irish Higher Education Institutions in Future Decades

Opportunities and Risks facing Irish Higher Education Institutions in Future Decades

- Social Inclusion is an issue of increasing importance in Irish higher education. Institutions have the opportunity to provide quality, relevant education to social groups who were previously under represented in the Irish higher education system.
- Demographic trends will soon create a situation where there are more places than eligible school leavers, some institutions will struggle to fill places and lose vital State funding as a result. Institutions that succeed in attracting available students or fill the gap with alternative sources and types of students will overcome this difficulty. Those that do not will face falling student numbers and “calibre”, and an accompanying fall in State funding.
- The fundamental nature of third level education has changed, particularly over the last decade and will continue to do so. The link with the economy has never been

stronger and institutions must respond to that link, particularly in the area of technology. Institutions must also be prepared to move as quickly as these new areas of study demand. Some older disciplines are now struggling for survival and institutions will be required to work together to preserve these for the sake of education and learning. The academic strategy set out by each institution will be critical in addressing these challenges.

- The strategic award of research funding through the HEA administered PRTL programme has already highlighted a gap between institutions that have a research reputation and those that do not. Some Irish institutions have been slow to develop or display an area of research excellence, something that will be essential in order to maximise research funding.
- Flexibility in provision of education will become increasingly important. This includes the development of a lifelong learning strategy, provision of modular teaching and learning that crosses department and faculties even more so and development of outreach and distance learning. In terms of financial management, this flexibility must be matched by flexibility in cost-bases within the institution.
- The increased globalisation of education has meant greater numbers of non-EU students attending Irish Universities and colleges. However, while these students have always represented a valuable source of extra income for institutions, their importance will grow in light of falling numbers of domestic students and increased global competition for this body of students.

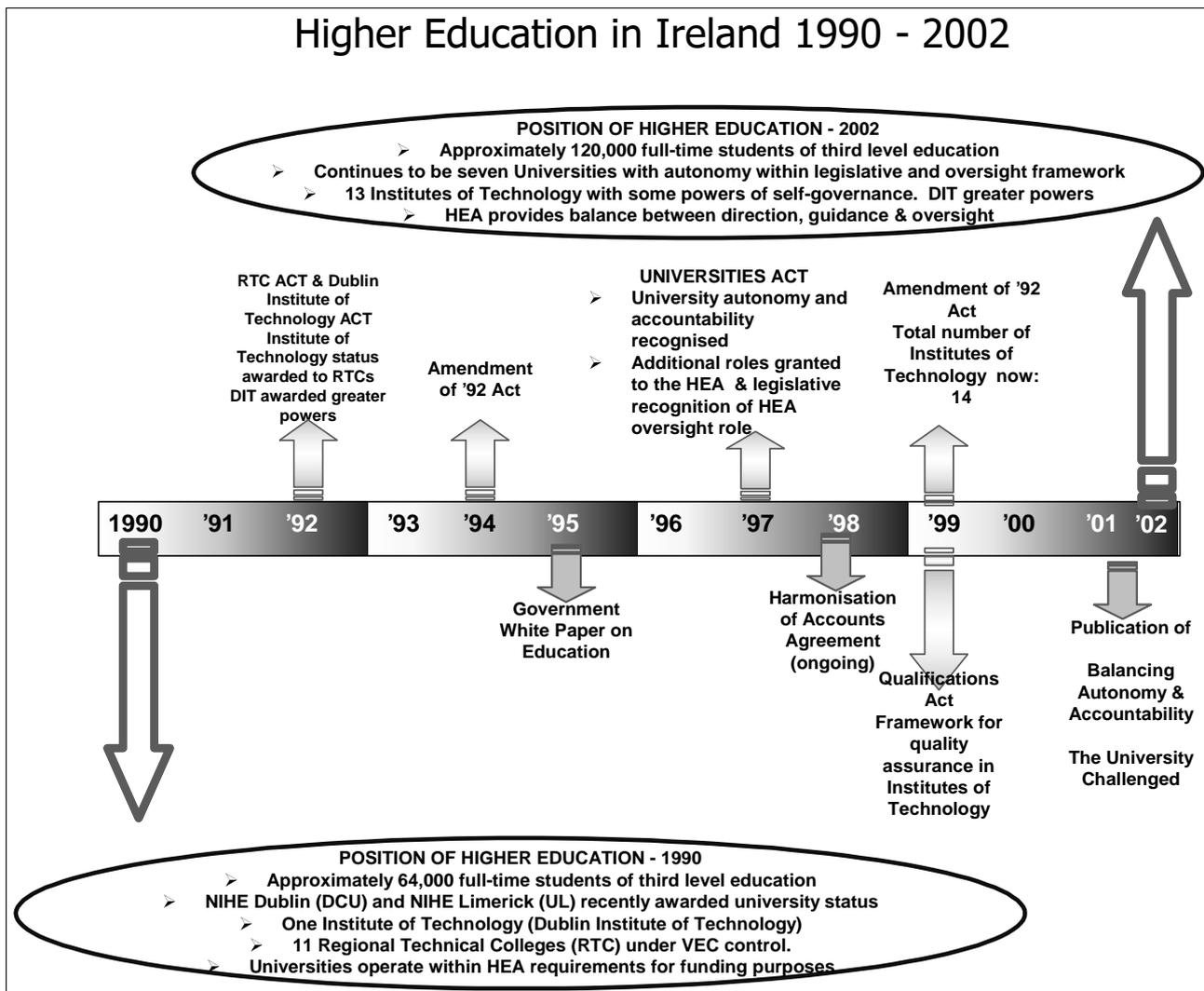
Conclusion & Final Comments:

The Evolution of Irish Higher Education

76. The section “*Strengths and Weaknesses of Financial Management Policy in Irish Higher Education*” illustrates the evolution of Irish Higher Education between 1990 and 2002. During this period Ireland experienced an explosion in student numbers, mainly as a result of greater numbers of school leavers, but also because of increased access to third level education. The Government’s commitment to higher education was underlined with the publication of the White Paper on Education in 1995. Key aspects of Government policy have been achieved through a combination of incentives and agreement within the sector.

77. Legislation enacted during this time established the Institutes of Technology (formerly called Regional Technical Colleges) to meet the growing demand for access to third level education, particularly in the Dublin region. The RTC Acts provide for Institutes of Technology to self-govern within the terms of legislation and according to the direction and policy of the Minister for Education and Science. Dublin Institute of Technology was established as an autonomous institution under the Dublin Institute of Technology Acts 1992 and 1994. The Qualifications (Education and Training) Act, 1999 formally addressed the issue of quality in higher education and established new agencies with responsibility for quality assurance.

78. The 1997 Universities Act clearly documented the autonomy of the Universities. This autonomy was matched by greater public accountability and increased requirements including quality, equality and strategic planning as reviewed and monitored by the HEA.



Key successes of the Irish Higher Education System:

79. The milestones in higher education during the period illustrated in section “*Strengths and Weaknesses of Financial Management Policy in Irish Higher Education*” and described above represent the major developments in higher education since the early 1970s with the establishment of the HEA. Although Irish third level education is the outcome of several initiatives and policies, rather than a collective formalised State policy, it has resulted in a higher education system that has advanced through a period of significant and rapid national demographic, economic and social change.

Key Success Factors in the Irish Higher Education System

- No Irish higher education institution has incurred financial deficits such that its ongoing viability was threatened.

- The numbers of students attending third level institutions in Ireland doubled between the years 1990 and 2002. This increase in student numbers was achieved without sacrifice of quality by institutions.
- More than four out of five Irish university students complete their course of study¹³.
- Ireland is a leader amongst OECD countries in terms of numbers of overall graduates and in particular graduates in technology and the sciences¹⁴.
- The provision of graduates by both Universities and Institutes of Technology has been a key element in the development of Ireland as a knowledge-based economy with a significant proportion of the workforce engaged in highly skilled technology based industry.

80. Thus the system of financial management, checks and balances employed by Universities and Institutes of Technology has proved effective in ensuring sustainability, quality graduates and value-for-money even through a turbulent period within Irish education. The oversight framework set in place by the HEA through Harmonisation of Accounts and “Balancing Autonomy and Accountability” combined with the legislative requirements of the Universities Act has been effective in ensuring their ongoing viability and continues to improve on current achievements.

81. Institutes of Technology as newer institutions have received a greater level of support from the State. This support has allowed the Institutes time to develop the experience, systems and processes necessary to completely manage their own affairs. The expected widening of the remit of the HEA in 2004 is likely to present Institutes of Technology with greater responsibility in terms of management and reporting.

The Ongoing Sustainability of Higher Education Institutions in Ireland

82. The future position of higher education, in Ireland as in other countries, will depend on demographic trends, economic factors, and academic market position. The challenge for institutions is to respond to these issues in a way that does not threaten either their financial sustainability or quality of their academic offerings.

- Institutions who choose to remain as they are without developing a strategic academic position may find that the quality and relevance of their academic offerings will begin to decline. Thus they may fall behind in the race for students and funding, directly affecting their financial sustainability.
- Institutions who choose to change, but at a pace that is not supported by effective financial management, may also risk the decline of quality, competitiveness and ongoing sustainability.
- Institutions with effective cost and resource allocation systems will achieve flexibility in their cost base allowing them to respond to new challenges in a timely

¹³ OECD Education at a glance survey, 2002

¹⁴ OECD Education at a glance survey, 2002

and appropriate manner. Such flexibility will be a key requirement for achieving academic advancement without placing institutional financial position at risk.

- Institutions who work together to advance new areas of study and preserve disciplines that struggle for numbers will serve the advancement of higher education in Ireland to the benefit of everyone.

83. While financial viability is a key requirement for all institutions, the achievement and assurance of quality in teaching and research will be essential in assuring their ongoing viability. Thus institutions must continue to evolve, responding to new trends and issues in higher education, but at a pace with which the institution can maintain quality and thus ensure sustainability. Institutions that implement change at an appropriate pace will be able to address the key requirements for ongoing sustainability as outlined below:

Key Factors in Assuring Ongoing Sustainability of Irish Higher Education Institutions

- Quality of leadership, ability to recognise and respond to issues in a timely manner, to identify an appropriate market position for the institution and create the foundations such that it competes strongly within that position.
- Quality of teaching such that the academic offerings of the institutions can be measured and compared favourably with the best internationally.
- Quality of research, such that the institution can compete on a global level, attracting the best researchers, academic staff and students.
- Flexibility in cost-base linked to diversity of income allowing timely and appropriate response to new demands while maintaining the essence of quality and relevance of the institution.

84. Within the framework of financial management and control practiced by Irish institutions, the achievement of quality in their activities will ensure the ongoing success of the institution.

85. The Irish system of higher education has come through a decade of profound change in terms of economic and social development. The demands on institutions in terms of quality, relevance and accountability have grown and continue to grow. The system of higher education has proved resilient enough to cope with these pressures. Institutions themselves have been proven to have the dynamism and strength of management to rise to the challenge of a changing world. However, neither the State nor institutions themselves are resting on their laurels. The foundations for a world-class system of higher education are in place. Improvement of quality and access within a framework of financial viability are now key priorities in addressing the evolving society in which we live.

APPENDIX 1

EXTRACT FROM THE REPORT “CREATING AND SUSTAINING THE INNOVATION SOCIETY 2002”

The following description of the Irish Programme for Research in Third Level Institutions is taken from the report “Creating and Sustaining the Innovation Society 2002”:

HEA-PRTLTI

In 1998, the Government launched the Programme for Research in Third Level Institutions (PRTLTI). The PRTLTI, which is managed by the HEA on behalf of the Minister for Education and Science and the Government, provides integrated financial support for institutional strategies, programmes and infrastructure. The programme is competitive. Calls for the proposals are issued to all publicly funded third level institutions. The proposals are evaluated by an international panel of distinguished researchers and scholars on the basis of excellence under three criteria – strategic planning (including inter-institutional collaboration), research quality, and the impact of the research strategy and programme in improving the quality of teaching in the proposing institutions. One of the requirements of the competition is that the institutions prepare and submit strategies for research and identify institutional priorities.

To date an unprecedented EUR 600 million has been allocated to third level institutions under this programme for research. Substantial funding has also been provided from private philanthropic sources who have supported the strategic focus and competitive basis of the programme.

The strategic approach underpinning the PRTLTI dates back to the commissioning by the Authority in the mid 1990s of a comprehensive assessment by the CIRCA Group of the funding and management of research in the universities.

In addition to recommending increased funding for research, and the establishment of research councils, the CIRCA report also called for a more strategic approach, at the institutional level, to the funding of institutional strengths and core competencies in research, for more explicit institutional planning and prioritization and for the promotion of greater inter-institutional co-operation and inter-disciplinarity within the third level system. With the improvement in public finances from the middle of the 1990s onward, the case for improved funding of research was made with much greater success than had hitherto been the case. In particular, the provisions of the National Development Plan 2000-2006 for research have been very important in enabling the Authority to develop funding programmes.

Key elements in the PRTLTI approach include:

- Supporting institutional research strategies
- Establishing potentially world class and significant centres of research excellence
- Building the foundation and capacity for advanced research in the institutions – foundation rather than incremental funding
- Promoting and embedding inter-institutional collaborative research in order to counterbalance limitations of scale in the Irish system
- Incentivising the establishment of efficient and effective management of research in the institutions
- Assisting the development of institutional missions and strategies for research
- Strengthening the synergies between research and education, in the formation of human capital through embedding research and in the education process and securing the education dividend from research
- Capturing the “process benefits” from participation in research – its impacts on human capital, skill development and institutional competitiveness. Other funders are (or ought to be) concerned with the knowledge outputs from research and the systems for transfer and commercialisation of these.

The PRTLTI initiative was motivated primarily by the following considerations:

- The need for prioritisation, based on institutional strengths, in the face of constrained resources
- The need to build collaborative inter-institutional strengths, in the face of constrained resources
- The need to develop research centres with critical mass
- The importance of encouraging transdisciplinary and interdisciplinary basic research
- The desirability of assisting research strategies in smaller research institutions through alliances and collaborative arrangements with larger institutions
- The benefit of integrated funding packages providing support for personnel, infrastructure and recurrent programme costs.

Some quantitative indicators of the impact to date of PRTLTI have already been outlined in Section “Legal & Administrative Environment for Higher Education Financial Governance”.

The impact of PRTLTI can be further illustrated by reporting that to date funding has been provided for a total of 33 centres, within and across many research disciplines. Details of all the centres and programmes funded are presented in Annex 4. A number of these centres are listed below for illustrative purposes. A key point to note is that these centres include significant collaboration with other institutions.

- The Research Institute for Networks and Communications Engineering (RINCE) at Dublin City University (Eur 10.47 million)
- The Marine Research Institute at National University of Ireland Galway (EUR 19.13 million)
- The National Institute for Regional and Spatial Analysis (NIRSA) at National University of Ireland, Maynooth (EUR 2.71 million)
- A National Nanofabrication facility at University College Cork (EUR 27.7 million)
- Materials and Surface Science at University of Limerick (EUR 15.8 million)
- The Humanities Institute of Ireland at University College Dublin (EUR 7.61 million)
- The Institute for International Integration Studies at Trinity College Dublin (EUR 8.41 million)

An example of the type of collaboration that has developed between institutions would be the co-operation in environment research taking place between the PRTLTI funded

- Environmental Research Institute at UCC (EUR 27 million)
- Environmental Change Institute at NUIG (EUR 9.5 million)
- Centre for Sustainability at IT Sligo (EUR 3.18 million)
- and a total of eight other institutions contribution their expertise and skills to these programmes.

The formation of the Dublin Molecular Medicine Centre (DMMC), a joint venture¹⁵ between University College Dublin (UCD) and Trinity College (TCD), represents a further evolution of the collaboration model in the Irish context. The DMMC is now also collaborating with the Royal College of Surgeons in Ireland (RCSI) for work on the Programme for Human Genomics (PHG). PRTLTI has provided funding in excess of EUR 70 million for the establishment of the DMMC and the associated Programme for Human Genomics.

¹⁵ Constructed as a jointly controlled but separate entity with its own governance and management structures

APPENDIX 2

EXTRACT TAKEN FROM THE REPORT “THE FINANCIAL GOVERNANCE OF IRISH UNIVERSITIES – BALANCING AUTONOMY AND ACCOUNTABILITY” (2001)

Extract taken from the report “The Financial Governance of Irish Universities – Balancing Autonomy and Accountability” (2001)

The recommendations of the study are:

The Governing Authority

1. Each university should formally acknowledge to the HEA that:
 - the governing authority has the ultimate statutory responsibility for the good governance of the institutions;
 - a fundamental element of good governance is the maintenance of sound systems of internal control to safeguard the institution’s assets. The governing authority is therefore responsible for ensuring that the financial, planning and other management controls, including controls against fraud and theft, applied by the institution, are in place; are appropriate and sufficient to safeguard both public and private funds, when received by the universities; and are properly monitored. Internal controls also cover functions and operations, other than finance and accounting, which impact directly on the financial management of the university, for instance, student enrolments, categorisations and staff establishment;
 - that within the institution there are discrete areas of responsibility for internal control systems devolved among a number of senior officers of the institution;
 - the governing authority is responsible for ensuring that funds, when received by the universities, are applied and expended in accordance with any conditions or purposes for which they were provided;
 - it is also responsible for securing the economical, efficient and effective management of the institution’s resources and expenditure, capital assets and equipment, and personnel, so that risk to the public and private funds and all other resources received by the university is minimised;
 - it acts through the chief officer as provided for in the Universities Act, 1997.

Internal Control

2. In each university:
 - the governing authority should, if they have not already, put in place arrangements to ensure that there is a sound system of internal control within the institution;
 - arrangements should be in place, or are being, or should be developed, regularly to review the effectiveness of internal controls and to provide the governing authority with this assurance;
 - reference should be made in the annual report that there is an ongoing process for identifying, evaluating and managing the institution's key risks, and that it is regularly reviewed by the governing authority.

The Audit Committee

3. While the review of the effectiveness of internal control is the governing authority's responsibility, it should act through an audit committee, without prejudice to its ultimate responsibility.
 - The audit committee should be constituted formally to ensure that its relationship with the governing authority, to which it reports, is clear.
 - The duties of the audit committee should be determined according to the institution's own requirements.
 - The audit committee should each year provide a report to the governing authority which would include, inter alia, an opinion regarding whether or not the institution's system of internal control are operating effectively.
 - The audit committee should also be in a position to form an opinion of the institution's arrangements to promote efficiency, economy and effectiveness and to secure value for money in all areas. The committee's opinion on these arrangements should be included in the annual report to the governing authority.

Best Practice Monitoring

4. As part of the development of procedures and policies, to ensure the effectiveness of the whole system of internal control and management systems, there should be an ongoing review of published reports on corporate governance, guidance on the governance of universities, on the role and function of governing authorities, on the role of university audit committees, and other relevant material.
 - By taking cognisance of these publications, and of other developments in governance, the institution can benchmark its own systems against these standards and ensure that it is seeking to adopt relevant best practice.

Internal Audit

5. Each institution has, or is in the process of establishing, a properly functioning internal audit service. The governing authority will ensure that this service will be, or is, distinct from the independent external auditor and separate from the institution's management, whether provided in-house, or out-sources, and without any executive, management or operational responsibilities outside internal audit.

- the governing authority has the final responsibility for devising, developing and maintaining control. The governing authority recognises that internal audit has a key role in providing a service to the institution and giving assurance on the adequacy and effectiveness of the internal control system. In addition to its role in ensuring probity, the internal audit service should also assist in ensuring value for money;
- when reviewing the constitution and function of the internal audit service the governing authority will take into account the guidance material developed for the UK universities, and it will ensure that the service is sufficiently resourced, funded and staffed, and vested with the authority it required fully to carry out its proper functions without interference or hindrance;
- reference should be made in the annual report that there is an ongoing process for identifying, evaluating and managing the institution's key risks, and that it is regularly reviewed by the governing authority.

Verification

6. After the institution's annual audit and following receipt by the audit committee of the independent external auditors' management letter on their audit findings and their review of internal control, the details of the auditors' letter will be reported to the governing authority, usually in the report of the audit committee. Following this process, and to meet the need for public reassurance, each year the institution's head, as accounting officer, will provide verification by writing to the HEA to report if any material weaknesses in internal control systems have been brought to the attention of the governing authority. In that event, the head will indicate the nature of the weaknesses, when they came to the attention of the governing authority, and what actions have been or are being taken by the governing authority to rectify the systems' weakness.
7. Similarly, if any material weaknesses have been notified by the internal audit service to the governing authority, or have been notified to the governing authority in the report of the audit committee, the head will report to the HEA accordingly. In advising the HEA the head will indicate the nature of the weaknesses, when they came to the attention of the governing authority, and what actions have been or are being taken by the governing authority to rectify the weaknesses identified.
8. If no material weaknesses have been identified during the year, either by the independent external auditors or by the internal audit service, or reported by the audit committee to the governing authority, the head will advise the HEA accordingly in the annual report to them. As part of the annual report the head will confirm that the institution has an active audit committee and will provide details of its membership. The annual report should also confirm that there are arrangements in place for the provision of an effective internal audit service and that it is carrying out a regular programme of audits.