



C&AG Special Report on Matters Arising out of Education Audits (Higher Education)

RESOURCE MANAGEMENT

The report notes that universities and institutes of technology (IOT) had net cash balances of €706 million at the end of the 2010/11 academic year and concludes that consideration should be given to the possibility of developing more central treasury management arrangements.

Treasury Management

Higher education institutions (HEIs) generally have formal treasury policies in place which set out the basis on which cash can be placed on deposit. Such policies can include elements such as ensuring an appropriate spread across institutions to avoid over exposure to any one financial institution. They can also contain rules in relation to risk exposure and, for instance, determine the required credit rating in order to permit money to be placed on deposit with any particular financial institution. Such treasury policies are important from a governance perspective for institutions.

The HEA and the Irish Universities Association (IUA) have met with the NTMA to examine options available. At present, the NTMA cannot compete with commercial banks in terms of the interest rates it can offer to HEIs. It is also relevant to this issue that the Department of Finance proposes to examine the feasibility of providing shared banking arrangements in the public sector, in the first instance for government departments. This may well have implications for practice in HEIs in the future.

Cash balances

Cash balances arise primarily as a result of timing issues and can include some or all of the following:

- Funding received in advance e.g.: student fees and student contribution charges are received in September.
- Research funding (direct & overhead) received in advance from exchequer/non-exchequer funded research agencies which can represent deferred income against which there are contractual commitments in both current and future financial years.
- Drawdown of loan funding for capital projects not yet expended
- Ancillary non exchequer income i.e., students rents and deposits received in advance for the next academic financial year
- Sinking funds associated with tax-based capital developments
- Pension Control Account Balances

The 2010/11 accounts of the HEIs show an overall net level of cash balances of €706 million in the sector. The year-end position represents cash balances at a point in time and the August/September represents a particular high point in terms of liquidity and is not therefore representative of the general cash balances on hand throughout the year. For instance in June 2011 the cash on hands in the universities

was €334.6 million – over €140 million less than in September. Cash balances can be particularly healthy at 30th September as a result of student related receipts collected at the start of the academic year such as fees, student contribution charges, student rents and deposits etc.

In getting an understanding of cash balances, it is important to distinguish between restricted and non-restricted cash balances. Restricted cash balances include sinking funds relating to S843 and S50 tax-based capital financing arrangements and so are not available for 'general' use. The accounting treatment of such arrangements can vary across HEIs. Some institutions include these amounts in cash balances while others report them as investments. In addition, other cash balances are also restricted as they include cash relating to pension contributions held by universities. Any consideration of the cash balances on hand should exclude such amounts.

The detailed analysis below shows the extent of restricted cash.

	Consolidated Universities 2011 €M	IOT Sector 2011 €M	Total 2011 €M
Cash Balances	477.7	228.3	706
Pension Funding	(47.2)		(47.2)
Other	(18.9)		(18.9)
Capital Development Reserve	<u>0</u>	<u>(71.5)</u>	<u>(71.5)</u>
	<u>€411.6</u>	<u>€156.8</u>	<u>€568.4</u>

In the institutes of technology, as previously noted by the C &AG, elements of the student registration fee (now student contribution) have been transferred to reserves, mainly for the provision of capital facilities for student services. This would be considered a strategically important use of such funds.

Of the unrestricted cash reserves of €568.4m, a substantial element is required to enable the institutions to manage operations and meet on-going costs in a timely manner, e.g. to meet staff salary costs (on a weekly, fortnightly or monthly basis) and to meet the obligations of the Prompt Payments Act (which requires HEI's to pay suppliers within 15 days of receipt of a valid invoice). A working group established by the HEA in 2004, and drawing on international and national expert advice, recommended in their report (*Financial Position of Irish Universities*) that, by reference to international good practice, institutions should maintain of the order of 60 days cash so as to prudently manage operations.

A number of reasons were identified as to why HEIs need to generate cash:

- Building new academic capacity.
- Making strategic investments.
- Maintaining and renewing physical infrastructure.
- Matching external capital investments.
- Managing cash flows.
- Taking opportunities and managing risks.

The generation of net cash balances should be viewed as prudent management of the overall resources available to an institution and the current arrangement of funding in advance is essential for the effective operation of the institutions. It provides important and necessary flexibility for institutions and, in an environment where they generally do not know what their core grant funding for the year will be until well into the financial year (due to the fact that this is allocated on a calendar year basis), this is essential from a financial planning perspective.

Reserves play an important part in the overall health of the HE sector and its contribution to the national economy. The HE sector, although a significant recipient of State funds, is also a valuable generator of economic activity in its own right, as well as an earner of export income through international students and sales of service. As such it is a significant part of the overall economy, generating wealth as well as tax revenues. At a time when State funding is reducing it is important that HEIs have sufficient resources to allow them to continue to generate increasing levels of resources from non-State sources. In 2010/11 approximately 35% (or €875 million) of the income of the sector was sourced from non-State sources. (University sector 60% state, 40% non-State ; IoT Sector State 75% and non-State 25%).

Much of the reform agenda implemented in HEIs in recent years has required some up-front investment. The flexibility provided by having positive cash flow was a significant enabler and provides institutions with the ability to exploit opportunities which otherwise may not have been possible. The provision of upfront funding for research activity is also essential. Often major research contracts will require significant upfront investment. As the level of research activity continues to expand any change in the funding arrangements could significantly hamper operations.

It is also important to counter a possible misconception that significant levels of cash means that the sector is overfunded. Analysis of the overall financial position of the sector indicates that the sector is currently operating more or less on a break even basis. Exchequer funding to the sector has reduced by approximately 25% over 2008 levels. Despite this HEIs have significantly increased their student numbers over the same period (by c.11%), while maintaining balanced budgets and eliminating accumulated deficits where they arise. Furthermore it is clear that HEIs face an extremely challenging funding period over the next 3-4 years. It is notable that a recent comprehensive study commissioned by the European Commission (ECOFIN) found that Irish higher education was at the forefront in terms of efficiency. The study which considered 22 European countries, the US and Japan took into account a range of measures such as costs, scale and quality in making its observations.

While in the view of the HEA there are strong reasons for the maintenance of significant cash balances in HEIs, we are nevertheless alert to the implications of excessive cash reserves. With that in mind we have sought to limit the scope for this outcome by taking the following actions which will have the impact of reducing cash balances in the years ahead:

- The HEA has slowed down funding transfers to HEIs to take account of cash flows by rescheduling core grant and free fees payments, and having much stricter payment arrangements for PRTL projects.
- Arrangements have been put in place to facilitate the payment of the student contribution in two instalments. In addition, as a result of the economic downturn HEIs are increasingly required to facilitate phased payment arrangements for student related payments and in addition institutions have seen a marked increase in outstanding fees and bad debt provisions.
- The Department of Education and Skills and the HEA are considering the issue of advanced research payments. This will require consultation with relevant Government Departments.

The HEA will keep under on-going review the timing of Exchequer payments to the HEIs.

In considering how to avoid excessive cash balances in HEIs, it is important to avoid the perverse effects that may be created if institutions do not have sufficient control over their assets. For instance, a requirement for unreasonably low cash balances could lead HEIs to use resources in a less than optimal and non-strategic way to stay within such requirements.

BANK CONCESSION INCOME

Bank concessions are granted for a fixed period of time (term varies across institutions). The concession/licence income is generally received up-front on granting the licence.

In the university sector, from an accounting perspective the income received is amortised over the term of the licence/concession arrangement and the annual income recognised is generally booked in 'other income'. In August 2010 the HEA wrote to each of the IoTs setting out new requirements for the Format of Accounts for the sector. These also provided for a similar approach in respect of treatment of Banking Concession Fees to that outlined above.

The C&AG report notes that "there would be merit in a review of the application of such concession income across the sector so as to ensure that there is an agreed State policy covering its use in accordance with the wider education objectives".

In response to the C&AG recommendations, the HEA has undertaken a review/survey of bank concession income in the sector and is currently collating the responses. Preliminary results indicate that this income is being used for wider educational objectives.

The HEA will consider, in consultation with the DES, any implications arising from the review.

PENSION RELATED RESERVES

As part of the approach agreed with the Departments to resolving the pension deficit in the funded schemes of the university sector, the funded pension schemes of UCD, UCC, NUIG, NUIM and TCD were closed and new model pay-as-you-go schemes were introduced in early 2005 (dates ranging from February to April of 2005). The assets of the closed funded schemes were transferred to the State under the Financial Measures (Miscellaneous Provisions) Act 2009. The actual value of the funds transferred is as follows:

	Value of Assets (€m)	Value of Liabilities (€m)
UCD	€501.1	€590.0
UCC	€312.7	€501.7
NUIG	€215.7	€372.2
NUIM	€58.5	€138.4
TCD	€279.0	€595.0
Total	€1,367.0	€2,197.3

The Financial Measures (Miscellaneous Provisions) Act 2009 which transferred the assets of the closed pension funds of 5 universities to the NPRF required that these institutions continued to make employer and employee contributions in respect of these closed funded pension schemes. As such, the HEA continued to make a provision of approximately 15% of related salary costs in core funding to these institutions and required the universities to set these funds aside in a pension control account. This account is used solely for the payment of pensions and will transparently show the pension contributions being set aside each year and the annual pension costs.

However, the HEA also continued to provide for employer and employee pension provision in the core grant in respect of those staff in the new PAYG schemes in these 5 universities which the C&AG considers to be “an advance of funding in excess of current requirements”. These arrangements were only established as a temporary measure to provide transparency and consistency of approach following the transfer of pension funds.

The HEA informed the universities that the continuation of this baseline pension provision in respect of both the closed schemes and the new model schemes must be reflected by the universities in their core budgets, and must continue to be set aside in a pensions control account and used solely to pay pensions. The pension control account covers all staff including core and research staff. The attached table (**Appendix 1**) shows the estimated deficits/surpluses on the pension control account from 2010 to 2013. It will be noted that up to 2010/11 the surpluses arising from the model scheme contributions have been sufficient to meet the shortfall on the closed schemes. From 2011/12 onwards, however, the surpluses which had been generated by the model scheme since 2005 will be eliminated and the control account is estimated to move into an overall deficit position.

The accumulation of funds in the pension control account was intended as a temporary measure only. The allocation of these funds to pension control accounts

was made within overall available resources for the sector as a prudent and transparent means of providing for projected deficits and rising pension costs. No additional exchequer funds were advanced for this purpose. The HEA is working with the Department of Education and Skills to agree the future arrangements for the funding of pensions. This work will be completed in 2012 and it is envisaged that new arrangements will be in place for the 2013 recurrent grant allocations.

EMPLOYMENT CONTROL FRAMEWORK

There have been a number of versions of the Employment Control Framework (ECF) for the higher education sector since the introduction of the public sector staffing moratorium in March 2009:

- Interim arrangements were put in place in April 2009.
- In July 2009, the first ECF was put in place.
- A revised ECF was put in place in January 2010.
- A further revised ECF was put in place in March 2011. Amendments were made to this Framework and the current ECF was issued in June 2011.

The ECF permits the filling of vacancies subject to a number of conditions, including the achievement of minimum reductions in staff numbers; The Framework also states: "The filling of any posts within an institution, to the extent that this Framework permits it, will be conditional on that institution operating strictly within a balanced budget and having an agreed plan in place with the HEA for the elimination of any accumulated deficits. In pursuing overall agreed strategic objectives, institutions will continue to respond positively to student participation demand, having regard to the maintenance of quality."

There are a number of mechanisms in place for monitoring and managing staff numbers across the third level sector. These are set out below:

Employment Monitoring Committee

The Employment Control Framework (June 2011) states as follows in relation to the monitoring of the Framework:

"This Framework shall be monitored by an Employment Control Framework Monitoring Committee comprised of the HEA, which shall chair the Committee, and representatives of the Departments of Education & Skills, and Public Expenditure & Reform. The Committee shall invite the IUA, IOTI, Department of Jobs, Enterprise & Innovation and others, as relevant, to meet with it from time to time to discuss operational matters of common concern. In this regard, and through the overarching STI governance structures, it will liaise with research funding agencies and Departments in monitoring the overall envelope of research posts provided to meet anticipated growth in Exchequer funded research activity."

The Employment Monitoring Committee has met 13 times since the original Employment Control Framework was issued and has discussed issues such as:

- Major implications of the ECF
- Institutional and other State body perspectives on the ECF
- Reductions, targets and progress with staffing numbers
- Specific types of posts affected by the ECF
- Academic Promotional Posts
- Implications of the ECF for research posts
- Student numbers and capacity in the higher education sector

Reporting and Records

The ECF June 2011 states as follows in relation to reporting and records:

“Institutions shall maintain appropriate records in relation to their observance of these conditions and shall make these records available for inspection by the HEA and the Employment Control Framework Monitoring Committee, as required, from time to time.”

Quarterly Staffing Statistics

The HEA collects staff numbers from its HEIs quarterly. The HEA requires that completed hard copies of the template provided are signed and verified by personnel officers.

The information collected includes details of core staff broken down into academic and non-academic staff, full-time and part-time staff, permanent and contract staff; Exchequer funded research posts; and other specialist posts funded through non-Exchequer sources.

Between December 2008 and December 2010, core staff numbers were reduced by 7.3% i.e. significantly in excess of the 6% reduction which had been required. Core staff numbers were further reduced in 2011 bringing the total reduction against 2008 to c. 9% by end December 2011. (It is to be noted that over the same period, overall public sector numbers decreased by 7.2%). As further reductions are required in the sector in 2012, it is anticipated that total core staff numbers will have been reduced in total by a minimum of c. 10% by end December 2012.

Student Numbers

In the context of reducing staff numbers outlined above, between December 2008 and December 2011 full-time student numbers increased by 17,000 or 12%. Furthermore, institutions have continued to engage proactively with sectoral labour market initiatives e.g. Springboard.

The changes in staff and student numbers since December 2008 can be summarised as follows:

	Dec-08	Dec-10	Dec-11	% change v. Dec 08
Staff numbers	19,356	17,944	17,598	-9%
Full time student numbers	145,690	160,972	162,784	12%

Institutional Budgets

The HEA monitors closely institutional budgets and to date all HEIs have operated within balanced budgets and plans are in place to eliminate accumulated deficits where they arise.

In conclusion the HEA is satisfied that the monitoring mechanisms in place are effective and have delivered the required outcomes. HEIs are to be commended on the responsible approach that they have taken to dealing with the current very challenging economic circumstances. In the period December 2008 to December 2010, the sector more than delivered on the required reduction in staff numbers - (7.3% versus a requirement for 6%.) At the same time HEIs accommodated significant growth in student numbers, while operating within overall reduced funding levels.

The C&AG concludes that the ECF has succeeded in reducing numbers in the HE sector.

Promotions in TCD

The C&AG's report notes the decision by TCD in summer 2010 to make a number of promotions (27 academic staff), effective from 1 January 2011. The HEA considers these promotions a breach of the Framework (promotions were not permissible under the ECF of that time) and this was made clear to TCD at the time. The background to these promotions is as follows:

TCD wrote to the HEA in April 2010 regarding an internal promotions process which had commenced in 2008/09 and which they now wished to implement. At the time the Employment Control Framework covering the period January 2009 to end December 2010 was in place.

The issue of internal promotions schemes was subsequently considered by the ECF Monitoring Committee, following which the HEA advised the higher education institutions on 14 May 2010 that academic promotional schemes "are currently not permissible under the ECF". At a meeting with TCD on 16 June 2010, the HEA indicated to TCD that such promotions were not currently permissible under the ECF. TCD however took the decision to implement the recommended promotions with effect from January 2011 i.e. post the expiry of the then current ECF. A meeting of the ECF Monitoring Committee took place on 13 July 2010 to discuss the promotions and considered that if TCD did not reverse its position then financial penalties could be imposed.

On 22 July 2010, the HEA advised TCD that, "I am to request the University to withdraw the award of these promotions until further notice. If this is not possible, due to contractual or other issues, the HEA and the two Departments will have no option but to consider the imposition of a financial penalty on the TCD recurrent grant for 2011 and/or the withdrawal of the terms of the ECF to TCD and re-imposition of the moratorium in full in respect of all vacancies arising in the

University.” The University replied on the 28 July 2010 to the effect that it considered itself under obligation to continue with its promotions process.

The HEA sought further information from the sector (via the IUA) on academic promotions processes in the universities generally, and submissions were considered at a meeting of the ECF Monitoring Committee in October 2010. It was subsequently agreed in the revised ECF, which issued in March 2011 and covered the period up to end 2014, that internal promotions could take place in the HEIs subject to certain conditions. This position was maintained in the amended ECF which issued in June 2011.

The HEA advised TCD in its grant allocation letter for 2011 (14 February 2011) that, “In deciding on allocations for 2011, the HEA also considered issues related to unauthorised payments in universities. While the allocations for 2011 have been made in the normal way and a portion of the grant has not been withheld as referred to in our letter of 19 January, the Authority decided that universities that made such payments should, in framing budgets for 2011, have regard to monies that are referable to those payments. These will be the subject of further discussion with the HEA, once the amounts concerned have been identified.”

As referred to in the Senior University Staff Remuneration section below, the total amount identified for TCD in relation to unauthorised allowances and payments includes an amount in respect of the above-mentioned promotions in the College (approx. €32,000).

EXPENSES INCURRED BY THE OFFICE OF PRESIDENT IN WIT

The HEA wrote to WIT on 17 May to express concern at reports in relation to payments in the office of the President, and to stress the importance that these reports be investigated and understood, and that where necessary appropriate changes to systems and policies are put in place to address these.

Specifically, the HEA requested that WIT submit a detailed report in respect of all expenditure undertaken in that office over the relevant time frame and further that WIT would report whether:

- Any of that expenditure was for purposes other than that of the institute
- Any of that expenditure fell outside normal processes for expenditure control, including processes for tendering etc
- If any such expenditure did occur, how the system of financial control and review within WIT allowed any such expenditure to occur
- The specific controls in place in respect of expenditure incurred by the office of the president
- Any appropriate measures being taken to improve systems of internal control in light of foregoing
- Any other actions that the Governing Body proposes to take in respect of this matter.

The institute reported to the HEA on 3rd June, drawing on the Deloitte report commissioned by the institute which examined non-pay expenses incurred by the Office of the President in the period January 2004 to March 2011. This review concluded that there were a number of instances of non-compliance with Institute policies and procedures, particularly with regard to the procurement of services and expenses relating to travel and hospitality.

A further report has been commissioned by WIT to examine in more detail expenses occurred by the President's office in the last two years. The HEA will continue to liaise with WIT in relation to the outcome of this report and to ensure that appropriate processes and procedures are in place and being adhered to. We understand that the report's finalisation has been delayed because of related legal action being taken against the institute by the former President.

All HEI's are required to comply with proper procedures in relation to travel and expenses and it is of concern that the issues raised in the report occurred. However, the C&AG concludes that he is satisfied that the Institute has taken the appropriate measures to ensure the same issue does not occur in the future.

There are clear accountability and governance procedures in place within institutions, and reporting mechanisms to the Minister for Education and Skills, and to the Oireachtas.

In particular, under both University and IOT legislation, the President is the Accountable Officer and is answerable to the Committees of the Oireachtas in relation to the disposal of monies. The legislation also provides that the C&AG undertakes annual audits of the financial statements of universities and institutes

of technology which includes a review of expenditure incurred by the institutions, and the C&AG reports regularly on these audits.

Furthermore, and in line with practice in the public and private sector, Codes of Governance have been agreed at a sectoral level which provides for a range of effective measures around procedures for procurement, tendering, financial reporting, internal audit and travel. This further increases the accountability of institutions, by requiring the establishment and implement of specific mechanisms in these areas. Each university and institute of technology is required to submit to the HEA an annual statement, confirming that all appropriate procedures and measures in relation to the above have been adhered to.

SUBSIDIARIES AND FOUNDATIONS

Accounting for Subsidiary Undertakings

Section 13 (2) (c) of the Universities Act, 1997 sets out the functions of a university which may include the establishment of “such trading, research or other corporations as it thinks fit for the purpose of promoting or assisting, or in connection with the functions of, the university”.

Similarly, Section 5(1)(e) of the Institutes of Technology Act 2006 provides as a function of an institute that it may be engaged in, and own part or all of a company as long as the objects of the company or undertaking include the carrying on of such business, trading or other activities, as the institute thinks fit, for the purpose of promoting or assisting in the performance of, or in connection with, the functions of the institute.

As stated by the C&AG, subsidiary companies have been established by HEIs for a variety of purposes, including the flexibility of operating certain campus services within a commercial environment or to benefit from tax efficient schemes (student accommodation, etc.).

In relation to the arrangements for the management and governance of subsidiary companies it should be noted that the scale and extent of subsidiary companies varies across institutions.

In general the following arrangements apply across all institutions:-

- Subsidiaries have a board of directors who are responsible for the governance of the companies. Generally, the board of directors include institutional employees and in general these include senior institutional officers.
- Subsidiaries produce financial statements which are independently audited.
- Results are consolidated and reported within the university financial statements. Consolidation will apply for the 2012/13 IoT accounts.
- Formal reporting arrangements with the institution are in place. This can include reporting to Finance Committee, Audit Committee, Governing Authority.

The HEA in consultation with the HEIs has recently updated the Codes of Governance for the sector. The codes state that universities and institutes of technology “including their subsidiaries” should adopt this code – and confirm to the HEA that this has been done.

In general institutions do not apply non-State sourced income to subsidiaries except where specifically agreed/provided for e.g. monies collected through student levies for application to student related activities. However, it is the HEA view that HEIs

are free to apply such income to subsidiaries in the context of furthering the objects and development of the institution.

The HEA would however consider that such funding should normally not be provided on an on-going basis. Subsidiaries should generally aim to be self-financing. However, it is accepted that there may be exceptional circumstances where such subsidisation is appropriate and necessary. In these instances the HEA view would be that the rationale for subsidisation should be clearly set out by the HEI, following a rigorous risk assessment and agreed by the Governing Authority.

The C&AG calls for the full consolidation of subsidiary operations into IOT accounts. The Department and the HEA agree with this and it is hoped that full consolidation will be achieved in the 2012/13 financial accounts.

In relation to the company providing non-academic services to the WIT and the C&AG's position that such activities should be included in the consolidated accounts, we would share the view that there are issues to be considered. We have engaged with WIT setting out our concerns in relation to the operation of that company and have requested that WIT review this position and report on proposals to make any necessary changes to meet best corporate governance standards.

In relation to the DCU companies cited, while some individual companies are loss-making, the group as a whole is generating a surplus.

Financial Transactions with Foundations

HEI foundations are legally separate entities from the HEI and are generally established as limited companies. The objectives of the Foundations are to generate philanthropic support for the institutions. They are subject to audit, and financial statements are available from the Companies Registration Office. The C&AG has no audit remit over Foundations.

The National Strategy for Higher Education states:

"Philanthropic donations are a significant source of higher education funding in a number of countries – most notably the US, where there is a long-established philanthropic tradition. Irish higher education institutions have worked hard to secure philanthropic funds, and have had some success, particularly in relation to capital expenditure. Between 2005 and 2008, private investment in infrastructure accounted for almost 50 per cent of total capital expenditure. There may be potential to attract more funding from philanthropic and other donor sources, notwithstanding the difficulties of the current climate.

In general, donors are more likely to be convinced where there is a clear sense of mission and purpose and where there is confidence that the system is operating at a high level of efficiency. Any credible effort to expand the role of philanthropic funding is critically dependent on the continuation of sustained public investment – this reassures potential benefactors that they are funding additionality rather than replacing an exchequer contribution. Such reassurances should be guaranteed through a national mechanism whereby philanthropic donations for purposes

consistent with agreed strategic directions would leverage additional exchequer support."

Foundations are a significant source of non-Exchequer income for universities. In the vast majority of cases donors specify the purpose of their gift and therefore in most cases there is little or no 'discretionary' income available to meet the management and administration costs associated with university Foundations. As a result most but not all universities provide funding and/or administrative and management support to their respective university Foundation. In general this support is provided from non-Exchequer income. Generally, the 'return' on any income/support provided by universities in terms of philanthropic donations acquired by the Foundations more than justifies the 'investment' and represents real and significant savings and benefits to the State. While the trend of making payments to fund the operating costs of foundations may not historically have been envisaged, the HEA view is that the provision of such funding is reasonable, on the understanding that the benefit to the sector exceeds the investment over the longer term.

It is also considered that in some instances start-up or seed funding from institutions' core budgets may be required to encourage/develop fund raising activities, particularly in the smaller institutions. This should not occur, however, in the absence of a robust risk analysis of all relevant factors and advance approval of the Governing Authority should be obtained. In the longer term the benefit to the institution should exceed the initial investment.

Foundations provide a very important means for higher education institutions to attract philanthropic funding. As we seek to diversify the funding base of our higher education system, foundations will play an even greater role.

In general Foundations do not acquire assets in their own right other than cash or investment holdings of donors. In addition as charitable bodies there are restrictions on the distribution of any assets held.

In relation to transparency around financial transactions it should be noted that there already exists a significant amount of transparency in relation to activities. When a Foundation makes a distribution to the associated HEI, whether by way of transfer of funds or assets, such receipts (but not the individual source details) will be disclosed in the financial statements of the associated HEI and assets will be capitalised. Any distribution received will normally be shown in income in the institutions financial statements.

University Foundations are subject to audit and in most cases audited financial statements are publicly available in the Companies Registration Office (where the Foundations have been established as companies limited by guarantee). Given the sensitivities around donations and given that in many cases anonymity is a prerequisite for certain philanthropic support, any moves to increase the level of detail that already exists within the public domain would need to be considered carefully. Care must be taken to support this important source of non-Exchequer income and not to undermine it. The HEA will explore with the sector whether there are significant areas of risk associated with the current levels of accountability.

The C&AG report mentions 4 specific foundations (WIT, MIC, UL, TCD). Of particular note is WIT, where the foundation failed to raise any money and was subsequently wound down. Like all business ventures, there is always risk involved, but for the most part university foundations have very successfully attracted private donations.

With regard to procurement, I wish to confirm that HEIs must adhere to public procurement guidelines irrespective of the source of funding being used whether exchequer or private. The HEIs actively engage with the HEA and the Department on an on-going basis in respect of their physical development plans.

In addition, as part of the annual governance statement to the HEA, institutions are required to confirm that guidelines for the appraisal and management of capital proposals are being adhered to where appropriate. In the context of the annual governance statement requested in 2011, all institutions provided this confirmation for 2009/10 academic year.

REMUNERATION AND ACCOUNTABILITY

Senior University Staff Remuneration i.e., Unauthorised Allowances and Payments in Universities

In September 2010 the Office of the Comptroller and Auditor General (C&AG) published their Special Report No. 75 - "Irish Universities – Resource Management and Performance". This report included material in relation to payments in excess of approved levels for senior university staff. The Report was subsequently discussed at a hearing of Dáil Éireann's Committee of Public Accounts – this hearing was attended by the Presidents of the Universities, the Chief Executive of the HEA and officials of the Department of Education and Skills.

The C&AG's report noted that steps had been taken to end such unauthorised payments. However, in order to identify the level of excess remuneration, it was agreed that the HEA would carry out a review to estimate the amount at issue. The results of this review would in turn be verified by the C&AG. The review commenced in April 2011 and requested each university to provide details of the total remuneration paid to senior staff (i.e., senior management, Professors, Academic Medical Consultants and other analogous grades) between June 2005 and February 2011.¹

Universities were requested to complete templates detailing the remuneration for each member of staff covered by the terms of the review which were then checked by the HEA against the approved levels for the staff member's grade. The results of the HEA's review were then validated and verified by the C&AG who published "Special Report 78: Matters Arising out of Education Audits" in June 2012.

The results of the review were as follows:

UCD	€3,583,000
UCC	€1,526,000
NUIG	€578,000
NUIM	€272,000
TCD	€1,383,000
UL	€448,000
DCU	€53,000
Total	€7,843,000

In a small number of cases staff had been paid less than the rates approved. Such differences were netted against the excess payments in certain universities. The unadjusted amounts for the affected universities were: UCD - €3.61m, UCC - €1.64m and TCD - €1.5m. The gross excess payments are of the order of €8.1m.

¹ The start date of 3 June 2005 was selected as it was this date on which the HEA wrote to all universities seeking confirmation that senior post remuneration was within approved levels.

The C&AG's Report also noted that in some cases there was uncertainty about the approved level of remuneration and that the HEA would review these cases and if necessary, it would adjust the estimates of excess payment. The HEA completed this review in July 2012 and notified the universities of the following revised totals:

UCD	€3,283,089
UCC	€1,676,030
NUIG	€507,943
NUIM	€67,964
TCD	€1,207,580
UL	€330,546
DCU	€53,707
Total	€7,126,859

(A number of the adjustments require some further discussion with the relevant university.)

The total for TCD includes an amount (€32,000) in respect of promotions in TCD as referred to elsewhere in the C&AG's Report (see comments in Employment Control Framework section).

In deciding how to address these breaches of the statutory provisions relating to pay and allowances, the following principles of approach were adopted by the HEA:

- A meaningful sanction should be imposed on each university, sufficient to reflect the seriousness of the departure from normal procedure and to discourage any such actions in the future.
- The funding should be retained in the universities. To do otherwise would ultimately impact negatively on students. It should be borne in mind that while the monies involved were used inappropriately, they were nevertheless used for the purposes of the universities.
- The approach should be as straightforward and transparent as possible.
- All universities concerned should be treated the same way, with the effect of sanction falling on each proportionate to the cost incurred.
- An approach that brought added value to the sector, in the use of the monies involved, was to be preferred.

Applying these principles the HEA, in July 2012, advised the universities that the amounts referred to above would be dealt with as follows:

- Each university will retain 50% of the amount at issue. This amount must be applied for the support of students, either by way of student services, scholarships, etc. The university will be required to consult with the Students Union and to receive the approval of the HEA for its particular programme, which must be additional to existing services and must be auditable as such. The University may if it wishes commence the application of this amount in 2012, but must do so from 2013.

- The remaining 50% will be retained by the HEA from the University's grant allocation and disbursed to the sector according to terms similar to those applying to the Strategic Innovation Fund, with a focus on sector-wide initiatives.
- While the University may choose to fully address the funding adjustment in 1 year, a period of up to 5 years will be allowed during which the adjustment to funding could apply. This period may, with the agreement of the HEA, be extended to 10 years in respect of student services.

This approach was developed in agreement with the Minister for Education and Skills and the Minister for Public Expenditure and Reform.

Each University has confirmed its agreement to this approach and we await detailed plans as to the timescale and precise programmes.

Accountability and Audit of Universities

The HEA has been in contact with the universities and we understand that they are working with the C&AG to address any issues arising through informal or formal protocols. The HEA is available to assist in progressing this matter, if required.

Estimated Cash Position of Pension Control Accounts						
	Opening Balance		Deficit		Surplus	
	Total	€'000	Funded Schemes	Total	Model Schemes	Closing Balance (30 September)
			Total	Total	Total	Total
		€'000	€'000	€'000	€'000	€'000
2009/10	25,694		(11,803)	21,348	35,239	
2010/11	35,239		(33,383)	19,437	21,294	
2011/12	21,294		(46,551)	18,828	(6,430)	
2012/13	(6,430)		(43,593)	20,708	(29,315)	
2013/14	(29,315)		(50,499)	20,495	(59,319)	