

**Meeting of the Committee of Public Accounts****4 October 2012****HEA – Opening statement**

The Special Report of the Comptroller and Auditor General, *Matters arising out of education audits*, is a valuable review of some important elements of expenditure and controls in higher education. In considering the Report, and in preparing for our meeting today with the Committee, two principal considerations were uppermost – the collective responsibility of higher education institutions, relevant government departments and agencies to secure maximum return for state investment in higher education and the importance of positioning the sector to make the maximum contribution possible to economic recovery and future growth.

We have provided a detailed brief to the Committee. It may seem overlong but we felt that the issues required the fullest background and explanation. I do not therefore intend to deal with all the issues in this opening statement, but in the interests of ensuring the best use of time to focus on three areas in particular. Obviously, I and my colleagues are available to the Members of the Committee to address any and all issues of concern to them.

Cash Balances - Treasury Management

The C&AG has raised issues relating to the treatment of cash balances in the institutions and specifically as to whether there is a case for reviewing the State's wider treasury management policy. The report also noted that any such

review would need to take account of the return to the institutions and the impact on the banking system as well as the level of government borrowing. The HEA is entirely open to such a review. It is relevant to note that the Department of Public Expenditure is considering the issue of treasury management generally. In addition it is also relevant for the Committee to note that, in respect of the higher education sector, the HEA, in February this year, met with the NTMA to discuss whether there are immediate opportunities for NTMA to manage cash balances for the institutions. Arising from that meeting, it is clear that the existing arrangements of HEIs already in place are significantly better than those which NTMA would be able to offer. We will keep the situation under review to ensure that, if opportunities arise or circumstances change, these are exploited.

Cash Balances generally

More generally I would like to comment on the issue of the level of cash balances in the sector.

I want to emphasise that cash balances are not equivalent to surpluses and do not in any sense imply an over-funded system. Balances represent cash holdings of the institutions at a point in time arising from a variety of sources. The date on which the C & AG's report is based is, as it happens, a time when cash balances are particularly high.

Our own analysis shows that much of the cash in place is committed against current and future liabilities. Examples would include moneys that are ring-fenced for such requirements as pension liabilities. Another example is funds put aside to meet future liabilities from section 843 developments where capital projects were undertaken in partnership with private developers on the basis that the institutions would purchase assets at a specified future time.

In addition, I would ask the Committee to have regard to the fact that higher education institutions, as complex organisations need to hold certain levels of cash to ensure that salaries and other liabilities are met in a timely way and that opportunities that arise can be exploited. The provision of upfront funding for research activity is also essential.

As a general rule, the advice to the HEA from an expert group on this issue was to the effect that 60 days' worth of cash is necessary to enable higher education institutions to operate effectively and prudently.

The Committee should also note that we are not just discussing cash balances that arise from public funds. Some 40% of the income of HEIs comes from non-state sources – a very positive situation which is to be encouraged.

The HEA has been alert to excessive cash balances. To address the situation in so far as funds allocated by the HEA are concerned, we have slowed down funding transfers to HEIs to take account of cash flows by rescheduling core grant and fees payments, and having much stricter payment arrangements for PRTL projects. Arrangements have also been put in place to facilitate the payment of the student contribution in two instalments. These have all reduced the amount of cash in the system at any one time.

We will continue to monitor the situation. In addition, the Department and the HEA are considering the issue of the payment of research funding in advance. This will require consultation with relevant Government Departments.

Waterford Institute of Technology

I would like to move on to note the findings of the C&AG in relation to WIT. The Report notes that there were failures of control in certain aspects of the operation of the Institute, specifically in the Office of the President. The report

also notes that the institute has recognised these failures and put in place new control mechanisms to address this. The HEA agrees fully with the conclusions of the C & AG.

It is very disappointing when failures of this kind are identified. On the other hand, that they are identified demonstrates that, taken together, the full suite of control and accountability measures do work to identify and remedy failures. Failures of this kind also prompt the accountable bodies, governing bodies and the HEA for instance, to look again at how systems can be revised and reformed. Apart from the cost of the failure themselves, a greater cost would be that we fail to learn the lessons.

In response to the situation in WIT, the HEA contacted all the other institutes to ensure that the appropriate controls, so deficient in WIT, were in place and fully operational. While the detailed arrangements vary across the institutes, I can assure the Committee that we are satisfied that appropriate controls are in place. We are considering whether requiring a consistent approach would be practical and desirable.

The Committee should also note that such measures are in place within an accountability and control environment that includes legislative responsibilities, accountability to this Committee, internal audit arrangements and audit by the Office of the C & AG as well as an agreed code of governance which sets out a comprehensive approach to the treatment of issues such as financial controls risk management, accountability and transparency.

Robust processes and systems combined with constant vigilance, regular review of processes and procedures and prompt reaction to any failures are key components of an effective accountability and control system.

Unauthorised allowances

The Committee has, at a previous meeting, dealt with the detail of this issue. I hope today that I can assure the Committee that the matter has been dealt with in a satisfactory way; that allowances have stopped; that a recurrence of such payments will not arise and that the matter has been brought to a conclusion in a way that underlines the seriousness with which both the HEA and the Department of Education and Skills view the issue without further jeopardising a difficult funding situation in the universities or damaging the quality of the student experience.