Audit Committee Annual Report
Financial Year 2011–12

Appendices B – G

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AUDIT COMMITTEE

Amended by Grace 1 of 15 December 2010

1. There shall be a standing committee of the Council, called the Audit Committee, which shall consist of:

(*a*) a member of the Council in class (*e*) appointed by the Council to serve as Chairman of the Committee,

(*b*) two members of the Council appointed by the Council from among its members who are members of the Regent House, provided that neither the Vice-Chancellor, a Pro-Vice-Chancellor, nor the Chairman of a Council of a School shall be eligible to serve,

(*c*) four persons, not being members of the Regent House or employees of the University, appointed by the Council with regard to their professional expertise and experience in comparable roles in corporate life, including at least two members with experience of finance, accounting, or auditing,

(*d*) not more than three persons co-opted by the Committee, of whom

(i) the first person co-opted shall be a member of the Regent House, such person not being a member of the Council,

(ii) not more than two co-opted persons shall be members of the Regent House, such persons not being members of the Council,

(iii) not more than two co-opted persons shall be external members, one but not more than one of whom may be a member of the Council in class (*e*), provided that it shall not be obligatory for the Committee to co-opt any person or persons.

For the purpose of these regulations, external members are defined as the following members of the Audit Committee:

(i) persons who are members of the Council in class (*e*);

(ii) persons who are not employees of the University or any of its companies or of a College, and who do not hold College Fellowships which qualify them for membership of the Regent House.

2. Members in classes (*a*), (*b*), and (*c*) shall be appointed in the Michaelmas Term to serve for three years from 1 January next following their appointment. No member in class (*a*), (*b*), and (*c*) may serve for more than eight consecutive years. Co-opted members shall serve until 31 December of the year in which they are co-opted or of the following year, as the Committee shall decide at the time of their co-optation.

3. No person may be a member of the Audit Committee who is a member of the Finance Committee of the Council. If a member of the Audit Committee becomes a member of the Finance Committee, his or her place shall thereupon become vacant.

4. The Audit Committee shall meet at least twice in each financial year. It shall be the duty of the Committee:

(*a*) to keep under review the effectiveness of the University's internal systems of financial and other control;

(*b*) to advise the Council on matters relating to the external and internal auditors, including their appointment, the provision by the auditors of any additional services outside the scope of their regular responsibilities, the remuneration of the auditors, and any questions relating to the resignation or dismissal of auditors;

(*c*) to ensure that sufficient resources are made available for internal audit;

(*d*) to approve proposals for internal audit put forward by the internal auditors;

(*e*) to review annually with the external auditors the nature and scope of the external audit;

(*f*) to consider any reports submitted by the auditors, both external and internal;

(*g*) to monitor the implementation of any recommendations made by the internal auditors;

(*h*) to satisfy themselves that satisfactory arrangements are adopted throughout the University for promoting economy, efficiency, effectiveness, and risk management;

(*i*) to establish appropriate performance measures and to monitor annually the performance and effectiveness of the external and internal auditors;

(*j*) to consider, in consultation with the external auditors, (i) any financial statements annexed to the abstract of accounts, including the auditors' report, and (ii) any statement provided by the Council on the governance of the University;

(*k*) to ensure that all significant losses are properly investigated and that the internal and external auditors, and where appropriate the Higher Education Funding Council for England, are informed;

(*l*) to oversee the University's policy on fraud and irregularity, and to ensure that they are informed of any action taken under that policy;

(*m*) to make an annual report to the Council, the Vice-Chancellor, and the Higher Education Funding Council for England;

(*n*) to receive reports from the National Audit Office and the Higher Education Funding Council for England, and to advise the Council thereon;

(*o*) to forward minutes of their meetings to the Council.

5. No decision of the Audit Committee shall have any binding effect unless there are at least five members, three at least of these being external members, present at a meeting of the Audit Committee. If a decision is the subject of a vote and there is an equality of votes cast, the Chairman, or Acting Chairman, as the case may be, shall be entitled to give a second or casting vote.

6. In the absence of the Chairman of the Committee, the Audit Committee shall elect an acting Chairman from the external members present.

Reproduced from the Statues and Ordinances of the University of Cambridge:
http://www.admin.cam.ac.uk/univ/so/2011/chapter13-section1.html#heading2-2

Deloitte LLP - fees for internal audit work 2011 -12

	Number of Days	Cost (excluding VAT)	Cost (including VAT)
Completion of 2010 - 11	128	£ 72,320.00	£ 86,784.00
Audit Work in 2011 - 12	317	£ 216,303.00	£ 259,563.60
Total	445	£ 288,623.00	£ 346,347.60

Deloitte LLP - fees for other work relating to 2011 - 12

Other Work	Fees (excluding) VAT	Fees (including) VAT
iModules	£ 14,500.00	£ 17,400.00
VAT advice	£ 6,500.00	£ 7,800.00
	£ 21,000.00	£ 25,200.00

External audit

(i) PricewaterhouseCoopers LLP and overseas network firms – fees for audit work in relation to 2011 – 12

Entity and service	*Fees* (*incl. UK VAT – where applicable*)
External audit work for the University, Cambridge Assessment, Cambridge University Press, Associated Trusts and subsidiaries	£683,701
Cambridge Assessment – SAP pre-implementation assessment	£60,000

(ii) PricewaterhouseCoopers LLP and overseas network firms– fees for non-audit work for services billed after 31 July 2011 and reported in our November 2011 summary

Entity and service	*Fees* (*incl. UK VAT – where applicable*)
Cambridge University Press, UK - Provision of a secondee to assist management in the compilation and preparation of disclosure notes for the 2011 CUP group financial statements	£21,000

(iii) PricewaterhouseCoopers LLP and overseas network firms – fees for non audit services 2011 - 12 billed since our November 2011 summary

Entity and service	*Fees* (*incl. UK VAT – where applicable*)
Other assurance services	
Little U - Training and Development Agency for Schools (TDA) return	£4,075
Cambridge Assessment – OCR – agreed upon procedures with in respect of script checking procedures implemented for the June 2011, January 2012 and June 2012 series of GCSE examinations.	£36,000*
Little U – University of Cambridge (and Oxford) project assurance over the new grant management system	£63,597
Cambridge Investment Management Ltd – FSA client asset audit	£2,400
Tax compliance and advisory	
Cambridge University Press, Mexico and Japan – Transfer pricing review and advice on restructuring of Japanese business	£95,000
Cambridge University Press, South Africa – drafting local statutory financial statements to include appropriate IFRS	£2,000

disclosures	
Cambridge Enterprise Ltd, Corporation tax compliance	£3,480
Cambridge University Technical Services Ltd, Corporation tax compliance	£1,560
IFM Education & Consultancy Service Ltd, Corporation tax compliance	£1,896

* A further £10,223 was billed after 31 July 2012.

In addition to the above, we were engaged by Cameron McKenna Solicitors, as lead advisors on the services performed in respect of the allegation of bribery within the Indian subsidiary of CUP, our fees of £343,186 plus VAT were billed to Cameron McKenna. Although this has not been directly billed to CUP, in order to maintain compliance with our independence obligations to disclose any non-audit services we undertake either directly o indirectly for our audit clients, we have included the amount within this summary.

(iv) PricewaterhouseCoopers LLP – fees in respect of participation in external projects/events administered by departments

Entity and service	*Fees* (*incl. UK VAT – where applicable*)
Work in respect of ClimateWise, which is administered by the Programme for Sustainability Leadership	£48,000
Fees in relation to speaking engagements at events run by various University departments	£28,883

(v) PricewaterhouseCoopers LLP – fees for non audit services billed since 31 July 2012

Entity and service	*Fees* (*incl. UK VAT – where applicable*)
Other assurance services	
Group - Reporting accountants on project Camelot (Bond issue)	£30,900
Advisory	
Cambridge University Press – strategic performance management review	£62,270

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

16 October 2012

Professor Sir Leszec Borysiewicz
The Vice-Chancellor
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Dear Sir Leszec,

ANNUAL ACCOUNTABILITY EXCHANGE

An action arising from the HEFCE Assurance Review which was undertaken at the University of Cambridge in June 2008 was that there should be an Annual Accountability Exchange. I undertook the third Exchange on 30 March 2012.

The Exchange comprised a meeting with the Registrary (a shortened version of the Exchange compared to the previous two in recognition of the relatively minor matters arising from those two Exchanges). I prepared for the Exchange by reading the University's Annual Accountability Returns for 2010-11 and minutes from March 2011 to March 2012 of Council, Audit Committee, Finance Committee (and its Business Sub-Committee) and the Board of Scrutiny.

My overall conclusion is the same as that from the original HEFCE Assurance Review in June 2008: that HEFCE is able to place reliance on the University of Cambridge's accountability information. The report of the HEFCE Assurance Review in June 2008 described certain differences between the University's model of corporate governance and that recommended by the Committee of University Chairs in its "Guide for Members of Higher Education Governing Bodies in the UK". These points of difference remained at the date of the Exchange. I note that in response to a letter dated gth August 2011 from my colleague Paul Greaves to the Registrary the University's Audit Committee has recommended.to Council that there should be a review of the University's governance arrangements, the outcome of which will be reported to HEFCE by the end of academic 2013-14.

I have recorded in the Annex to this letter some observations arising from the Exchange. It would be helpful if you would arrange for a University response to these matters to be entered on the Annex and returned to me so that they can be readily followed up.

Yours sincerely,

Julian Knight
Assurance Consultant (East of England Region)

Matters Arising from HEFCE's Annual Accountability Exchange with the University of Cambridge on 30 March 2012

	HEFCE observation	***University response***
1	The Audit Committee's 2010-11 annual report was submitted to Council but at a meeting after Council had approved the 2010-11 audited financial statements. From 2011-12 onwards the timing of meetings should ensure that Council receives its Audit Committee's annual report not later than the meeting at which the audited financial statements are to be approved so that Council can take account of Audit Committee's review of the external audit management letter, the draft financial statements and relevant work of Internal Audit and other review bodies.	*The Chair of the Audit Committee reports to the Council the principal points of its Annual Report including review of the external audit management letter, the draft financial statements and relevant work of Internal Audit and other review bodies. The Council receives the Annual Report formally at its next meeting.* *We consider that the short sequence of Finance Committee, Audit Committee and Council best achieves complete and proper consideration of external and internal audit matters.*
2	The Committee of University Chairs (CUC) recommends that a governing body's Statement of Primary Responsibilities should be published widely, including on the internet and in the annual report. It would be helpful to stakeholders to publish the Statement on the University's open web site and in annual reports with effect from 2012.	*The Statement will be published with effect from 2012.*
3	Under the Financial Memorandum with HEFCE the University's Council is responsible for ensuring that the University: has a robust and comprehensive system of risk management, control and corporate governance; strives to achieve good value for money (VFM) from public funds; and has effective arrangements for the management and quality assurance of data submitted to HESA, HEFCE and other funding bodies.	

	Council naturally looks to its Audit Committee to provide independent opinions on the adequacy and effectiveness of these three matters and HEFCE also seeks to rely on these opinions. In the Audit Committee's annual report for 2010-11 there is a clear and prominent section containing the Committee's opinion on the three matters and the opinion on the arrangements for the management and quality assurance of data includes a helpful judgement on their effectiveness. While the opinions on VFM and data helpfully refer to adequacy and effectiveness, the opinion on risk management, control and governance is expressed with reference to progress over time. It would be helpful to Council (and to HEFCE) to receive a judgement about adequacy and effectiveness within all three of the above mentioned opinions in annual reports with effect from 2011-12.	*The Audit Committee's report will express with greater precision its opinions on adequacy and effectiveness on VFM, data and risk management at the point the judgement is made.*
4	2010-11 was the second year in which HEIs which are exempt charities were required to make disclosures in audited financial statements to meet HEFCE's new needs as Principal Regulator of exempt higher education charities. We were pleased to see that the University's audited financial statements included most of the required material. The disclosures could be further improved from 2011-12 by including: - a statement of the names of all trustees who served at any time during the financial year, making clear any changes in trustees during the financial year and up to the date the financial statements were formally approved; and - information about related party transactions involving trustees (the brief related party transactions disclosure at Note 31 of the University's 2010-11 audited financial statements does not address related party transactions involving trustees).	*The Corporate Governance Statement states that the members of Council are the charity trustees.* *The members of Council and changes during the year are listed in the Financial Statements. We will make it explicit that the listed members of Council are the charity trustees.* *The related party transactions note will be expanded for 2011-12.*

5	The financial forecast and financial commentary on past performance and future prospects should be formally approved by Council before being submitted to HEFCE as part of the Annual Accountability Returns.	*The financial forecasts are approved in the first instance by the Finance Committee before submission to HEFCE.* *We will ensure that Council approves the returns retrospectively for the 2012 exercise.*

University of Cambridge Audit Committee

Assurance on Colleges' use of HEFCE funds

Note of a meeting on 01 March 2012 in the Registrary's Office.

Present: Chairman of the Audit Committee, John Shakeshaft
Chairman of the Colleges' Committee, Professor Robert Lethbridge
Chairman of the Bursars' Committee, Nick Downer
Registrary and Secretary of the Audit Committee, Dr Jonathan Nicholls

In attendance: Assistant Secretary of the Audit Committee, Tamsin Mann

1. These meetings are convened in response to arrangements set out under Appendix H (3i) of the Audit Committee's annual report 2009-10:

i) The aim of the meeting is to provide additional assurance to the HEFCE on the engagement between the University and Colleges, regarding the Colleges' receipt of HEFCE funding and their use for educational purposes, adhering to Value for Money (VfM) principles.

ii) The meeting provides additional assurance to the University's Audit Committee on top of audit certification received by the Director of Finance.

iii) The Bursars' sub-committee on Resources and Charges had been disbanded. The Chairman of the Bursars' Committee now reported annually on VfM initiatives. A draft of the 2010-11 Value for Money report was circulated to those present.

2. It was noted that assurance requirements from HEFCE were likely to change in the next financial year with the introduction of the new undergraduate fee regime. The Registrary would be discussing HEFCE's intentions at his third (of three) annual assurance meeting with the regulator later this year.

3. The Chairman of the Bursars' Committee explained how fee income was treated in College accounts and the process for audit.

i) It was noted that the same headings were used to account for fee income as in the University's accounts. This provided a clear line of accountability.

ii) Additional assurance on individual college fee claims regarding publicly funded students is provided by a bursar from the Fees Sub-Committee checking another college's accounts.

4. There was discussion of the difference between the fee transfer income and the amount reported to be spent on undergraduate education in Colleges (which, on average, is almost double the fee received). The balance was found from endowment and, in some cases, supported by the Colleges' Fund distribution arrangements.

5. The Bursars' Committee VfM report (which was ratified by the Bursars' Committee subsequent to the meeting) presented highlights rather than the full extent of VfM activity being undertaken. It was acknowledged that VfM was being pursued in part because of the impact of the financial climate but also due to inspiration from projects elsewhere in the University where there was an increasing emphasis on shared services.

i) The Chair of the Bursar's Committee drew attention particularly to the Food Purchasing initiatives where the potential for savings was large.

ii) The introduction of Key Performance Indicators (KPIs) in the previous financial year had proved successful, allowing greater transparency of activity and benchmarking of best practice between colleges. The exercise would be repeated annually.

iii) It was agreed that under the new student fee regime scrutiny of 'value for money' at and between Colleges would increasingly come from students themselves, and their parents.

6. In conclusion, it was the opinion of the meeting that there was appropriate governance in place to monitor the transfer of HEFCE funds and assess that they were being spent for the intended purposes in a way consistent with value for money principles via the intercollegiate bodies and additionally through this annual meeting.

7. It was agreed that this note of the meeting, along with the Bursars' Committee VfM report, would be submitted to the Audit Committee for consideration at its meeting on 10 May 2012.

Registrary's Office
March 2012.

Report by the Chairman to the Bursars' Committee on Value for Money 2010-11

This report replaces the report of the Resources Sub-Committee, which has been abolished.

In order to promote economy, efficiency, and effectiveness during the year 2010-11, actions undertaken by the Cambridge Colleges include, but are by no means limited to, those set out below. Aggregate expenditure by the colleges, on a comparable basis, remained at a similar level to the previous year at around £268 million, despite generally rising costs and a hostile operating environment, suggesting that colleges' efforts at cost control continue to bear fruit.

1. Energy Purchasing

In the year under review the colleges' energy purchasing consortium renegotiated gas and electricity contracts, negotiating 12 month contracts and limiting increases to 20% in each. The decision to sign a 12, rather than 24 month contract was recommended by the consortium's professional advisers and has been vindicated by subsequent price falls. The Carbon Reduction Coordinator continues to engage in collaborative efforts to reduce consumption through the use of new technology, improvements in data capture and monitoring, and seeking best practice in terms of persuading people to change their behaviour. A number of consultants were approached to undertake a "beauty parade" for a college energy audit, enabling six colleges to undertake an audit at preferential rates. The consortium has also appointed an energy manager to advise the colleges on energy saving and assist in the measuring and reporting of consumption.

2. Food Purchasing

The colleges' food purchasing consortium has concluded a process to select a new purchasing agent. This will bring an immediate cost benefit of £50,000. The new agent achieved average savings of 18% in Oxford, which on a collective Cambridge college budget of £10 million per annum, suggests that substantial further savings may be anticipated.

3. Key Performance Indicators

The extensive review of Key Performance Indicators last year has proved successful and will be repeated annually. Follow up workshops on Sickness Absence Management, Housekeeping and Porters were well attended, allowing Bursars to share ideas, and identify optimum staffing levels and best practice across the colleges. One direct consequence of the Porters workshop is an initiative by a number of colleges to begin work on a collective approach to fire training and fire extinguisher servicing.

4. Shared Posts and Facilities

Colleges are working hard to share posts, infrastructure and facilities. Peterhouse and St. Catharine's jointly appointed a college nurse at a saving of around £6,000 each. Pembroke and Selwyn this year appointed a joint CTO in Economics, saving around £15,000 each. Robinson and Selwyn are in talks to merge IT departments. Caius has transferred its network management to the University, along with a member of staff. Many other colleges share sports facilities and boathouses.

5. Shared Legal Services

A collective approach coordinated by the Office of Intercollegiate Services again brought notable results with an Appeal Court victory in March 2011 for a PhD student, supported by the Head of the OIS, over the City Council in respect of the unjustified imposition of Council Tax. This has led the City Council to amend its practices, with positive financial consequences for Cambridge graduate students. Preferential legal rates for colleges have been negotiated with a number of local solicitors.

6. Insurance

The last insurance tender has yielded premium savings of between 5% and 10% in the year under review.

7. Training

A number of colleges continue to purchase collective training from external providers and also to work with the University's Health & Safety team. Churchill has organized English language classes for the staff of several Colleges. The College Catering Managers have organised training programmes to improve skills and to build business.

8. Property and Construction

The annual Bursars' construction meeting was reinstituted this year after many years. This well attended event allows colleges to share recent experiences of contractors and advisors in the property sector. As regards room management, colleges are working more closely together and with University bodies to minimise the cost of empty rooms.

9. Conference Cambridge

The colleges' conference income in 2010-2011 was £26 million, down from £30 million last year. In what is an increasingly challenging business environment, Conference Cambridge actively markets the University and Colleges' conference capabilities. During 2010-2011 it revitalised its web-based marketing and maintained the level of its inquiries at 2,496 (compared with 2,479 last year). 32% of inquiries were converted to new business for the University and Colleges. 28 venues took part in a 'Meet Cambridge Open Day' and an 'Ambassador Programme' was launched; the latter offers assistance to University and college academic staff who are considering inviting a residential symposium to Cambridge.

10. Joint College Action

The colleges continue to support centralised student services such as the Cambridge Admissions Office and the Counselling Service.

This list is by no means comprehensive as a number of individual colleges pursue their own initiatives. I am satisfied that there is good evidence across the colleges of continuing adoption and improvement of arrangements for promoting economy, efficiency and effectiveness.

Approval of the Bursars' Committee is requested.

NJA Downer
21st February 2012

Review of the Value for Money (VFM) framework and strategy

1. Introduction

This review is made in response to recommendations made in the internal audit report on the University's Value for Money Arrangements (AUD(11)102), which gave a Substantial assurance opinion. The audit report made two main recommendations:

Audit recommendation 1 (Priority 2)

> *There should be a project to review the VFM framework and to define the future direction of VFM at the University. The review should be formally reported to the RMC. The project should consider the identification of:*
>
> - *All current VFM activities and how these can be documented, quantified/measured and developed in future*
> - *Services within the University for benchmarking and;*
> - *Services for external benchmarking (either due to being externally provided or [to] measure the value obtained from internal provision).*
>
> *There should also be consideration of how VFM initiatives within the University's institutions are identified, promoted and supported, and incorporated in to central committee reporting and monitoring.*

Audit recommendation 2 (Priority 2)

> *There should be a review of the VFM strategy, including assessment of how the University defines VFM, its approach to promoting/monitoring VFM, and its objectives relating to how it obtains assurance and plans to document VFM improvements.*
>
> *This review of the University's VFM strategy should be performed in consideration of the recommendations of the Universities UK report entitled 'Efficiency and Effectiveness in higher education, issued in September 2011, and explore how the recommendations raised can be used by the University to develop its own processes in respect of VFM.*

2. Recommendations

As a result of this review, the RMC is asked to agree to the following:

i) The current VFM strategy and objectives have been reviewed in Section 3.B. It is proposed that:

- The VFM element of the Planning Round is strengthened by requesting an annual assessment of significant VFM achievement in submissions.
- RMC recommend one or more topic(s) 'worthy of review' for a VFM study to the University's internal auditors for inclusion in their annual work plan.

ii) The RMC is satisfied that responsibilities for implementing VFM as identified in the University's strategy are still appropriate and adequate alongside the VFM framework.

iii) The RMC should oversee the development of VFM reporting mechanisms (indicators) alongside that of sustainability KPIs.

iv) The recommendations of the UUK report '*Efficiency and Effectiveness in Higher Education'* have been reviewed and a watching brief will be maintained on developments at the national level. It is recommended that the RMC receives reports on developments with implications for Cambridge as necessary.

v) The shifting regulatory environment and the changing expectations of non-regulatory external audiences should inform VFM policy and reporting in the future.

3. Review

This review takes aspects of the auditors' recommendations in turn:

A. VFM framework

B. VFM Strategy

C. The future direction of VFM at the University

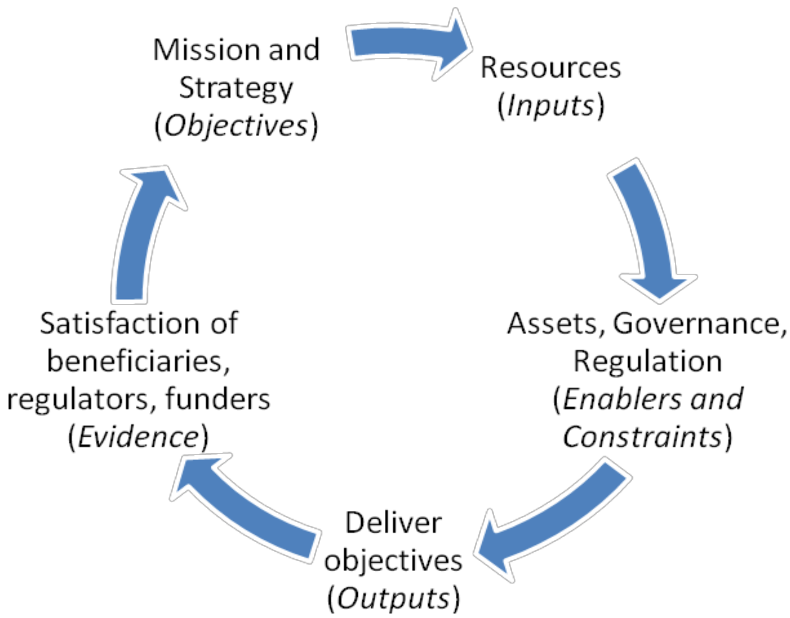
D. Identification of current VFM activities

E. Internal and external services for benchmarking

F. Next Steps

A. VFM Framework

The VFM framework, shown in the diagram below, represents the flow of resources to achieve the University's mission and strategic objectives given existing enablers and constraints. In order to show that it is achieving good value for money, the University must demonstrate to those to whom it is accountable that it is economic, efficient and effective in its use of resources.



The VFM Framework

Underpinning this strategic framework is the operational system of committees and offices which make up the University's resource administration. Details of VFM practices can be found in the minutes, policies and procedures that are produced and overseen by this administration.

The VFM strategy supports this structure by defining responsibilities and objectives by which VFM can be said to have been achieved throughout the organisation.

B. VFM Strategy

i) The Council first approved the Value for Money Strategy in July 2004; it explains how the University plans to achieve full compliance with the requirements of HEFCE.

'The University of Cambridge recognises its responsibility to achieve value for money from all its activities, however they may be funded. The University of Cambridge is committed to the pursuit of economy, efficiency and effectiveness. The institution will seek to adopt good practice and incorporate VFM principles into all its activities.'

ii) The strategy is reviewed and amended, if appropriate, on an annual basis by the Resource Management Committee (previously by the Value for Money Committee). No amendments have been requested since the strategy was approved in 2004. A separate VFM policy, which supports the strategy and identifies the main reporting procedures, was approved by Council in 2006.[1]

iii) The strategy sets out a number of objectives for achieving VFM but does not specify what should be used as evidence that these objectives have been or are being achieved. The RMC should therefore review the objectives and agree suitable indicators to measure their achievement or progress towards it. Initial comments are made in the table below:

Objective	Comment / Recommendations
1. to integrate VFM principles within existing management, planning and review processes	VFM principles are implicit rather than explicit in all such processes. Current Planning Round guidance states that one of the PR's aims is to '*encourage the efficient use of resources and provide incentives to maximise income and contain expenditure*'. The VFM element of the Planning Round could be strengthened by explicitly requesting an assessment of overall cost effectiveness and efficiency in submissions. Schools should be provided with guidance to support this request.
2. to adopt recognised good practice where this makes sense	It is not clear whether this objective refers to internal or external good practice (or both), or by whom such practice is recognised. Good practice arising from Planning Round submissions could be shared internally. External sources of good practice will be identified by the VFM officer.
3. to undertake VFM studies on areas of activity identified as worthy of review	VFM studies are carried out as part of the annual internal audit plan which is agreed by the Audit Committee on behalf of Council. This objective could be said to be achieved. However, a closer link to the RMC – as the Committee responsible for VFM – could be achieved if the RMC recommended annually areas 'worthy of review' for inclusion in the audit plan. The RMC should receive a copy of the internal audit plan as part of its annual planning cycle.

[1] http://www.admin.cam.ac.uk/offices/secretariat/vfm/policy.html

4. to benchmark the institution's activities against other similar activities and organisations where this is considered useful	A range of benchmarking methods is referred to in section E below. It is recommended that indicators for tracking VFM year-on-year are further developed as part of the reporting strategy.
5. to respond to opportunities to enhance the economy, efficiency and effectiveness of activities	
6. to promote a culture of continuous improvement	This objective should be merged with number 8.
7. to demonstrate actively to both internal and external observers that the achievement of VFM is sought in all activities undertaken	This is being done through annual budget planning and reporting (including VFM reporting).
8. to promote a culture of continuous improvement and ensure that all staff recognise their continuing obligation to seek VFM for the institution as part of their routine activities.	This obligation is communicated via the Financial Regulations and associated procedures in areas such as procurement. Inclusion of VFM reporting in the Planning Round will promote such culture further.

iv) The strategy also sets out responsibility for achieving VFM:

'The responsibility for VFM lies with all members and staff of the University and is not restricted to those with resource or financial responsibilities.

The Council is required to satisfy itself that VFM is being sought and achieved from the use of public funds. The Council has determined that this principle should extend to all its sources of income.

The Audit Committee is required, under the HEFCE Audit Code of Practice, to satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness. The Committee is required to relay its view on the arrangements to the Council in its annual report.

The Council has the responsibility to put in place arrangements that will ensure VFM is being sought. To help discharge this responsibility, the Resource Management Committee will be responsible for providing advice to the Council on VFM matters and has a responsibility to keep the Council and the Audit Committee advised of VFM issues.

Heads of Institutions and University Officers have the responsibility to maintain an awareness of good practices in their own area of operation and to ensure that these are followed appropriately.

All staff should endeavour to seek and achieve VFM in all activities and to bring to management's attention any opportunities for improvement.'

The RMC should satisfy itself that these responsibilities remain appropriate and adequate alongside the VFM framework and objectives.

v). The auditor's report recommends that this strategy is considered in light of the recommendations made by University UK's Efficiency and Modernisation Task Group report '*Efficiency and Effectiveness in Higher Education'* (2011)[2]. An implementation plan has now been published for the second phase of this project, identifying national bodies that will be responsible for developing and delivering individual projects. Where recommendations and /or

[2] http://www.universitiesuk.ac.uk/Publications/Pages/EfficiencyinHigherEducation.aspx

their implementation have consequences for Cambridge, this will be brought to the attention of the RMC. Consultation will be held with individual offices where projects are clearly relevant in the short-term (e.g. Procurement). .

C. The future direction of VFM at the University

i) Value for Money is currently an optional reporting element in the annual HEFCE returns, but signs are that it will become more significant and possibly mandatory. The UUK report mentioned above gives direction of travel in terms of how HEIs should manage their resources and the type of national benchmarking that could be introduced. HEFCE's Financial Sustainability Strategy Group (FSSG) report '*Assessing the sustainability of higher education institutions'*[3] has an underlying VFM element. Finally, the 2012 HEFCE grant letter from BIS referred specifically to efficiency (paragraphs 18 -20) noting that:

> '*More than ever, institutions must offer value for money to students and prospective students in the new funding environment. So efficiency and effectiveness must remain priorities for the sector and we expect universities…to deliver further efficiencies in all elements of teaching, research and administrative activity over the coming years.'*

ii) Clearly, there is an external regulatory audience for VFM reporting. HEFCE and BIS have stated their interests. In its 2012 letter, BIS has also drawn attention to the student community. With the advent of higher student fees and the debates surrounding them it can be expected that students – and / or their representatives at national level – and their parents will also take more interest in how resources are deployed.

iii) It is also possible that, in an environment of competitive fundraising and raised awareness of university funding / spending via the fees debate, alumni and donors will be more interested in understanding how resources are used. The VFM strategy approved by Council states that the principle of seeking VFM should extend to all sources of income, not just public funding. This principle is important given the emphasis on philanthropic giving by the Vice-Chancellor in the wake of the 800th campaign.

iv) The shifting regulatory environment and the changing expectations of (non-regulatory) external audiences should inform VFM policy and reporting in the future and should be taken into consideration by the RMC. The VFM annual report may become a key part of how the University communicates its resource and performance management to such audiences. In this respect, clear definition of objectives and the measures by which they are achieved will be important.

v) In considering the VFM framework and activities there may be overlap with current projects to develop Key Performance Indicators (KPIs) in response to HEFCE's FSSG report '*Assessing the sustainability of higher education institutions'*. Although sustainability in this context is not just about VFM, there is no doubt that VFM is a component. The report's executive summary notes that:

> *'The bodies that fund higher education need to know that the activity they fund is well-managed, efficient and sustainable, to ensure that public investment (including through student tuition fees) will deliver value for money. This assurance goes beyond the concepts of financial health or going concern.'*

vi) A useful distinction between the 'sustainability' of the FSSG report and the 'value for money' discussion in this review might be to see the former as an activity with more long-term, sector-wide objectives than the latter. Although it is possible to establish consistent categories in VFM reporting (improved procurement measures, energy efficiency) local circumstances may dictate that different qualitative or quantitative inputs/outputs are reported annually (e.g. restructuring a

[3] http://www.hefce.ac.uk/finance/fundinghe/trac/fssg/

particular service). Equally, the University may wish to highlight particular one-off projects in VFM reporting such as the 2011 Voluntary Severance Scheme.

vii) For reporting purposes, then, VFM indicators could be a sub-set of the sustainability KPIs. The RMC is well-placed to oversee the development of both in tandem.

D. Identification of current VFM activities

i) It is impossible to identity '*all current VFM activities'* as the internal auditors recommend, since the majority of VFM activities take place in departments (or equivalent units) on a largely autonomous basis. Indeed, in the current economic climate, Schools, Departments and Divisions will be making decisions based on the VFM principles of economy, efficiency and effectiveness on a daily basis. Such budget devolution is in itself seen to be a more effective way of managing the University's resources. Where a decision is sufficiently costly or otherwise significant to require approval by one of the University's central committees, then it becomes more visible outside the local context.

ii) The focus of VFM reporting, then, should be on strategic (e.g. Capital Plan) or University wide activities, such as purchasing procedures, preferred supplier arrangements, utilities metering, cheaper insurance through the annual insurance review, and better space utilisation.

iii) At a strategic level, the Vice-Chancellor sets direction by outlining his priorities to Council and thus influencing the way financial and other resources will be used over the year (or over the period of his office). This strategic direction should provide a guide for decision making at a more operational level. For example, the focus on international relationships has led to restructuring of the International Office and the importance attached to the postdoctoral community is a key driver for the North-West Cambridge project.

iv) The annual planning round, and the budget setting that stems from it, is the most centralised strategic 'tool' for identifying value for money activities throughout the University since all institutions are required to set out how they will manage expenditure, whether that is through investment, savings or both. Implicit in this management are the three VFM principles of 'economy, efficiency and effectiveness'.

v) The University's *key risk register* is another reflection of the senior management's strategic priorities and School risk registers have the same role more locally. Risk registers highlight where resources need to be focused to avoid operational, financial or reputational harm. They are another tool for decision making and achieving value for money by effectively managing resources. Examples from the University's key risk register are:

Key Risk	VFM element
#1 Financial Health	Sustainability of operations and case for continued investment to support the University's mission. Identifies risk mitigation measures such as the PRC Working Groups.
#2 Research Funding	Highlights the need for greater efficiency in recovering the indirect costs of research activity (economy), the need to meet sponsor requirements in certain areas of grant activity (effectiveness), and makes the case for operational investment in, for example, the research strategy office and strategic networks (efficiency and effectiveness).
#6 Maintenance & Development of the Estate	Looks at the case for investment in new build and spend on maintenance to make current estate and facilities last longer (efficiency and economy).
#11 Strategy	Highlights the need for a top-down approach to establish a framework for decision making which brings efficiencies to long-

	term planning. Strategy will help to inform significant investment decisions and organisational priorities.
#15 Administrative Systems	Highlights the risk and costs of inadequate administrative systems (which are all IT based). Proper management of this risk could lead to greater effectiveness and efficiencies for users with corresponding economy of investment.
#16 Investment Management	Ensuring value for money through the University's investment strategy.
#17 North West Cambridge	An example of large project management, in which value for money measures are inherent at most stages of the planning and decision making process.

vi) At a more operational level VFM activity can be defined in terms of financial and other resource management activity.

- Financial management to achieve objectives. Key lines of enquiry:
  - Planning round submissions
  - Research grant management
  - Investment Management
  - Fundraising and donations

- Resource management to achieve objectives:

  Natural Resources.
  - Carbon Management Plan
  - CRC tax
  - Electricity incentive scheme
  - Energy reduction schemes
  - Investment in Renewables

  Assets
  - Procurement (i-proc, purchasing agreements, consortia etc)
  - Capital Plan (clear Uni-wide strategy, medium to long-term planning)
  - Capital Projects Process (relevance, appropriateness, costings, review)
  - IT (Information Services and Strategy Syndicate)
  - Space utilisation
  - Asset utilisation (equipment funding, sharing of equipment)

  iPeople
  - Recruitment of best staff (REF)
  - Efficient use of staff (shared services, VSS, restructuring)
  - Staff development policies (Training, appraisal)

vii) By drawing on the lines of enquiry identified above a structure for VFM annual planning can be created which should present an accurate picture of significant VFM activity across the University. Where appropriate and useful, local examples could highlight best practice.

E. Internal and external services for benchmarking

i) There are many processes in place to ensure appropriate use of resources within the University's core areas of activity. Equally, regulators and third party surveys undertaken for the HE sector provide external benchmarking and controls. The table below summarises some of the key methods:

	Internal benchmarking / controls	External benchmarking /controls
Teaching	School Offices General Board Reviews General Board Education Committee • Learning and Teaching reviews • Learning and Teaching strategy • Learning and teaching quality updates and annual report	External examiners QAA League Tables National Student Survey Postgraduate Research Experience Survey Postgraduate Taught Experience Survey
Research	School Offices Research Policy Committee Key Risk Register	RCUK (grant monitoring and specific initiatives e.g. Efficiency savings exercise) REF League Tables
Administration / Support services	School Offices UAS Key Performance Indicators Internal audit Key Risk Register	IARU integrated services project (see below) Carbon Efficiency monitoring
All areas	• Finance Committee • Audit Committee • PRC • RPC	• External Audit • HEFCE

ii) Cambridge is the lead partner in the International Alliance of Research Universities (IARU) Institutional Joint Working project '*Integrated Services: Benchmarking HR and Corporate Services*'. This focuses on efficiency savings in so-called corporate 'transactional services' through process and system improvements, multi-skilling of staff, and achieving economies of scale in administrative activities. It promotes measurement of efficiency gains by benchmarking against other institutions (in this case the IARU group) using agreed factors and criteria in key areas such as HR and IT systems.

iii) The UUK and FSSG reports referred to above will provide more benchmark measures across the University's activities and should be used to inform future VFM reporting and activity.

F. Next Steps

i) If the recommendations made in this paper are accepted by the RMC they will be implemented by the officer responsible for VFM reporting (Registrary's Office).

ii) A longer-term project to establish robust VFM indicators for year-on-year monitoring of activities in agreed categories (see D.6) will be carried out and reported back to the RMC.

TRM/RHC
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