

HUMANE

## **Heads of University Management & Administration Network in Europe**

**Seminar**

**“Finance and Funding”**

**Università degli Studi di Firenze**

**24-25 March 2000**

Participants received a warm welcome from Professor Blasi, Rector of the University. Referring to the previous year's Bologna Declaration, he noted a movement towards common activity throughout Europe in both teaching and research, and saw immense benefit in bringing together administrators to consider both the differences and the similarities between national systems. HUMANE was thus very important in fostering reciprocal knowledge and exchanges.

Roddy Begg thanked Professor Blasi on behalf of the network. This, he calculated, was its twenty-first meeting and it had not only come of age but had also returned to the land of its birth, since the first Round Table meeting was held in Milan!

Gaetano Serafino, the local host, added his own words of welcome. Pointing out that the University had been founded as early as 1321 before being banished to Pisa in 1472 as a result of troublesome students, he noted present-day aims to move to a more horizontal structure, using a customer satisfaction model. He felt that the learning society relied on exchanges such as those offered by HUMANE.

## Resource Allocation and Accountability

**Peter Honeth: University Director, University of Lund**

Peter's talk set the notion of accountability in the context of social and governmental concerns, using the University of Lund as an example of how one university had come to terms with the requirements of financial accountability. The University had some 32,000 undergraduate students and 5,800 staff, and with an annual budget of 500 million euros it was the largest in Sweden and probably in all the Nordic countries.

Peter suggested several factors to justify the claim that accountability was now a key concept:

- Increasing competition between universities
- Political mistrust of universities' ability to prioritise in the context of change
- More financial dependence on external funding

The demand was now for more (and better qualified) graduates, and at the same time for more research and more outputs generally. Government, industry, students, and public opinion were all interested in more accountable behaviour. The external image of universities was now vitally important. It was better for universities to take the lead than to allow government or the press to set the agenda. Moreover, it was not always clear that governments knew what they really wanted - although the State provided 60% of funding for HE it was not clear that ministers understood the true situation or needs. In Peter's view the pressure to find non-governmental funds led to success by the most entrepreneurial staff, who were not always the best researchers. And above all, there was the issue of quality *versus* quantity: universities wanted and tried to raise quality, while government agencies tended to put the emphasis on quantity.

Having thus dealt with government allocation of resources he turned to the internal allocation. He posed various questions. To whom were universities accountable in this area (Government? Collegiate pressures? Students? Public opinion? University Leadership?) Should allocation of resources be based on results? If so, which results? The government tended to aim for minimum standards or number, with a certain level of funding for each student. The University had to decide whether to bring in qualitative measures, and if so, how.

Peter answers based on experience in Lund. For example, the university had put money into a process of internal audit. With regard to the advantages and disadvantages of using indicators as a base he showed how each Faculty had target number of fte students, and a productivity target based on study goals. Generally Lund had adopted a goal-oriented system rather than a rule-based system. But within all these decisions there was the need for balancing the distribution of responsibilities within the University (Vice-chancellor - Faculties – Departments). Lund is very decentralised, and Faculties have a major role in decisions. Budget-setting is therefore based on a political process, and the challenge is to organise a budget-setting process in which individuals accept responsibility rather than passing it to “the system”. Lund had therefore put less emphasis on the actual budget for the year, and more on the follow-up process of analysing the results of the previous year. This was a formalised task for each Faculty, with detailed reports on activity relative to plans. Quality reviews could lead to further questions, and steps to be taken by the Faculty. This sort of follow-up was vital in demonstrating accountability.

The annual process of resource allocation at Lund University could be summed up as follows – the aim was to achieve full accountability by means of an integrated process:

|                  |  |
|------------------|--|
| October          | Budget discussions                                       |
| November         | Budget decision  |
| February – March | Analysing results  |
| April            | Formal task to Faculties for further analysis of results |
| September        | Follow-up to half-year report                            |
| October          | Budget discussions                                       |
| November         | Budget decision  |

Peter concluded by noting that universities had traditionally been famous for the ability to discuss things; now they had to act, and show that they could adapt to external pressures.

**Questions** concerned the problems of extreme size when one was trying to achieve rapid change. Peter felt that universities tended to exaggerate problems – they were having to change, but the outside world was changing even faster. Outside observers were not always impressed! While he himself had been very impressed with the radical nature of some of the internal debates (for example, on the possible loss of departments) it was still not clear that action had been rapid enough. A similar view was expressed that over the period in which European universities had had to change from academic dominance to the accountability of a market-driven situation there had been more difficulties and stress, but also greater opportunities for managing an institution. The traditional system had in some ways been designed to stop change, but there were now possibilities

for taking advantage of change. Peter agreed that it was much more “fun” running a market-led institution than one based on rigid rules.

There was further discussion of the problems of devolved Faculties relative to central strategy, and the risk of creating several mini-universities. This led to a question about what happened if a Faculty did not respond to a particular challenge or goal. Peter admitted that this was a weak point in the system, in that while it was theoretically possible to (re)move a Dean it would in practice be very hard to remove someone who had been elected. This in turn led to discussion of participants’ experience with elected as opposed to appointed Deans. On the one hand some had found elected Deans to be insufficiently managerial; but at the other extreme was the example of appointed Deans being offered performance-related pay to make cuts, with the result that they were so zealous that it was left to the central administration to intervene to save academic quality and mission.

### **Managing change in Financial and Management Accounting: A Case Study**

**Fiorenzo Masetti: Università Cattolica del Sacro Cuore, Milan**

Fiorenzo gave a sketch of the Catholic University, founded in 1921 as a non-profit organisation and currently based on a five-branch structure, with Faculties and offices in Milan, Piacenza, Brescia, Cremona and Rome, where there was also a University teaching hospital, or Policlinico. The level of State funding was about 25%. In contrast to Lund, the Faculties had little autonomy, but depended on the centre for funds.

In the early 1990s, the General Board of the University decided, for eminently practical reasons, to change the accounting system from a cash basis (a system of book-keeping that records only a single entry for every transaction – typical of the Italian public accountancy system) to an accrual (double entry) method. The University wanted to strengthen its internal organisation and to improve its administrative procedures. What was needed was, above all, an accurate calculation and control of costs and commitments, which would enable better planning of the University’s future development.

This project took about eight years, and had gone through two phases.

*Phase 1* involved the sketching-out and implementing of a plan of action. This plan stated the major needs of the University and the actions required to respond to these, including changes in processes,

information technology systems, people, organisational structure and staff training. It had been necessary to change financial regulations and categories. External consultants had been employed.

*Phase 2* implemented an accrual method of accounting. This involved a book-keeping system which includes the records both of entries relevant to financial statements (in accordance with generally accepted accounting principles) and of entries relevant to management accounting. The records, therefore, present all income and expenditure both by function and by natural classification.

A new phase had started in 1996, a phase which could be described as the transition from the *implementing* of management accounting to a real *culture* of management accounting. This implies above all a change in the whole organisational culture. One example was the distinction now drawn between service centres (which use resources) and income centres (which use those services). He agreed with an observation that some departments can represent both types, and explained that earned income could lower the cost of the service.

In reply to further questions he noted that the Policlinico had different systems from the main university. He noted that the budget-setting process was a battle every year, as attempts were made to persuade staff to forget the previous year and to redefine need. The greatest change and advantage in the new system was that commitments were known. Overall he was satisfied that the overall project had been successful – some of the major factors were the problem-solving approach encouraged by cross-functional teams, and the sense of allowing people to get on with their proper tasks. The devolution of financial responsibility to the relevant manager was also a big step forward.

Peter Honeth returned to his earlier theme of the size and specific nature of some universities to note that, having bought a large commercial system from a major software supplier, he found that despite experience with multi-national companies the supplier had never had to cope with such a large number of cost units or managers – in his case about 450 cost units. The university culture is quite special. The session ended with some useful debate about the difference between State-funded and private universities in Italy, and the likelihood of being able to introduce such systems in the former category.

### **Internal Audit as an Aid to Management**

***Christine Challis, Secretary, London School of Economics and Political Science (LSE)***

***Malcolm Winton, Registrar, University of Salford***

This double presentation offered views of two UK institutions against a current background in which an emphasis on accountability partly reflects the insatiable demand for audit in our society. All aspects of University activity are the subject of different kinds of audit. The presentation focused on the development of internal audit as an essential aid to managers, both in exercising their responsibility for internal control systems and risk management, and in assisting the management of change to improve the effectiveness of the organisation.

All institutions in the UK are required by the funding council to have an internal audit function which can be exercised in a number of ways: by employing an outside firm of auditors; by employing internal auditors, or by sharing an audit service in cooperation with other universities. The LSE employs its own internal auditors, while Salford is part of a consortium.

The presentation compared and contrasted the procedures at LSE and Salford for the operation of internal audit and demonstrated through mini case studies how internal audit can help management exercise its responsibility for financial control, implementing change and improving effectiveness, and securing value for money services.

First, Christine Challis sketched the background of the LSE - a university institution specialising in the social sciences with an international student composition. The School has 7,000 students (a high proportion of whom are postgraduates), 18 academic departments, 5 Institutes, 25 research centres, and a national library (the British Library of Economic and Political Science). Annual income and expenditure is 143 million euros.

The School has its own small internal audit service comprising two staff members, who draw on external expertise when required. Audit covers all organisational units and therefore all functions, although at the outset it had started as a relatively low-level financial operation. Christine described the approach and procedures for establishing the audit plan, the conduct of audits and management responses, and the essential assistance given to management. Risk analysis had been a major feature of the process – for example, a study of departmental compliance with policies on health and safety – and here “risk” was seen in the context of strategic aims, thus taking in not just mechanical components but also large-scale effects on the School’s reputation.

The major practical difficulties had been a lack of willingness to respond, and attempts by several staff to ignore the exercise by giving deliberately general or vague replies. Action had been taken to overcome this, notably by having heads of unit sign up to agreed action. Christine's examples of the process were both illuminating and entertaining, and showed how the LSE had been able to improve various functions by means of better targeting of resources and the avoidance of duplicated work.

Malcolm Winton then described the situation at Salford, a broadly based university located in the Greater Manchester conurbation. It has 20,000 students, in a range of disciplines: health, sciences, engineering, business, media, design, and humanities. Annual income and expenditure is 180 million euros.

Salford has joined with six other universities in the North of England (all located within 70kms of each other) to form an Internal Audit Consortium. This consortium employs 17 staff and is governed by a Management Board composed of representatives from each of the member institutions. This approach offers an extremely cost effective internal audit service to members. They can draw on a wider range of expertise than any single institution could afford, and yet all Consortium staff have extensive experience in higher education.

The emphasis in internal audit is on acting as a partner to line management rather than as a 'policeman'. This approach is reflected in the conduct of audits, the preparation of reports and management responses, and in their subsequent monitoring by both senior management and the University's Audit Committee. Salford's procedures in these areas were based rather more on using software to analyse surveys and reports. These methods were compared and contrasted with those at the LSE, but here too case studies demonstrate how internal audit can support management in implementing change, in securing value-for-money services and in spreading best practice across member universities.

Other members with experience of internal audit were also impressed with results, and it was clear that those who had not seen it in operation were extremely interested in the possibilities. It was recognised that there was a large difference between compulsory audits and those which one chose to put in place to help one's own operation. One final comment was that it was important not to have the internal auditors reporting to the Finance Director, although Christine noted that the LSE had used retired Finance Directors as internal auditors and had found that their understanding of systems made them ideal choices.

[For this seminar the record relied on tape recordings. A technical difficulty meant that at this point some recordings were lost, and the record is therefore incomplete.]

## **Risk Assessment and Management - Financial and other Implications (Case Study)**

***Mary C. Dooley, National University of Ireland Galway.***

In mid-1998 the National University of Ireland Galway extended its systems of Corporate Governance by the expansion of its Internal Audit Service and the establishment of an independent Audit Committee. The scope of the Internal Audit function includes Value for Money (VFM) reviews of all University activities and has recently evolved to include general Risk Assessment and Management. Whereas earlier schemes in the mid-1990s had been limited to standard questions of whether projects were on time, within budget, and so on, with general regard for the “three E’s” of efficiency, effectiveness and economy, the new review was designed to go further.

In late 1999 a VFM Review of Project Management Services for building projects was undertaken. On the basis of the extended definitions, the review not only highlighted a number of VFM issues which needed to be addressed – in particular, cost and time overruns, together with procedural and reporting issues – but more importantly, it drew attention to the very real impact of these issues on the core academic operations of the University. Facilities were not available when required at the start of term, resulting in postponement, cancellation and/or relocation of lectures, laboratory sessions, etc. The resulting deterioration in the quality of service provided to students was regrettable and significant. The risk to the University's reputation was considerable, both among students but also (therefore) among potential students and indeed government agencies. This Internal Audit Study was of most benefit to the University in that it raised the issue of "reputational risk" for the first time. Traditionally such difficulties, although the subject of complaints at operational level, were seldom given a formal and structured airing at corporate level.

The complex nature of the individual project, with three buildings and three sets of architects, was stressed, and the role of the project manager was discussed. It was pointed out that although the excess over budget had been very small (only 1%) the impact of delay in time had been much more far-reaching. This had been one of the biggest lessons to emerge. Post-project reviews had not been fully completed in the past as a result of other pressures, and this again was seen as a way in which there was a risk of not learning from experience.

In an increasingly competitive environment it is important that Risk Assessment and Management are brought centre stage and contribute fully to the process of Corporate Governance. The large-

scale financial implications of ignoring the requirement for general risk assessment and management are significant.

New Trends in the Financing of HE in Spain

***Alfonso de Alfonso: Universidad Pompeu Fabra, Barcelona***

***Luciano Galan: Universidad Autonoma de Madrid***

As a result of the re-distribution of responsibilities on university financing which took place in Spain in the 1980s, the regional authorities (autonomous communities) now determine the financial model (both for current funds and future investment), instead of the Ministry of Education, as used to be the case. This had led to the creation of different forms and experiments, under general parameters which operate in common (especially in staff wages and salaries) and the launching of what one might call a “laboratory of ideas” in order to ascertain the most suitable model. This presentation illustrated some of those ideas.

The most attractive financing models are as follows: the so-called Agreement-programme between the Administration and the university (applied mainly in Catalonia) and the financing system on the basis of “registered credits” and “students eligible for financing” (applied in the region of Valencia).

The first one implies a special agreement, on a case-by-case basis, and the determination of future financing according to the goals actually achieved, established according to a conventional pattern by the university and the regional educational authority. The second, more complex one involves looking for an objective element to be financed (both for current expenditure and for investments), within guiding parameters (meeting the objective demand, the experimental nature of the degrees offered, etc.), with also a small allowance for percentage increases on the basis of results achieved. Here the model has not been determined on a case-by-case basis, but by consensus and collectively for all the Valencian universities, together with its autonomous administration.

The presentation set out to illustrate and answer questions as to how these models affect or improve the efficiency of the public university system? To what extent do these systems help to create additional financing based on objective parameters? How permanent is the financing obtained? To what extent does it contribute to achieve the goals established by university management? To what

extent do these models help to (pre-)determine the internal distribution within the university of the financing obtained?

Those wishing more technical detail may wish to visit a very relevant webpage on this topic (cash/accrual methods) at [http://www.toolkit.cch/text/PO6\\_1340.asp](http://www.toolkit.cch/text/PO6_1340.asp). A much shorter explanation is given at [http://sbiz.findlaw.com/text/PO6\\_4116.stm](http://sbiz.findlaw.com/text/PO6_4116.stm)

The webpage of the English Funding Council (<http://www.hefce.ac.uk>) has very clear links to further HEFCE pages on finance and to the Council's code of practice on audit.

(That is) targets for schedules or budget were not met.

To give something an airing is to bring it out into the open - clothes, maybe, or (as here) views/opinions.