
Quality Assurance of TRAC Implementation

6 April 2004

Ref: W04/22HE

To: Heads of higher education institutions in Wales;
Directors of Finance of higher education institutions in Wales

Summary: This circular provides information on the quality assurance process to be applied to ensure that the implementation of the Transparent approach to costing (TRAC) methodology within institutions is robust.

Response by: 31 May 2004

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QUALITY ASSURANCE OF TRAC IMPLEMENTATION

OVERVIEW

1. This circular is to inform you of the quality assurance (QA) processes we will undertake to ensure that the implementation of the Transparent approach to costing (TRAC) methodology in higher education institutions (HEIs) is sufficiently robust.
2. TRAC is becoming increasingly important since a substantial amount of public funding (several billion pounds) is dependent on the reliability of TRAC information. Furthermore, the Research Councils will use TRAC principles to allocate project funding and government departments have been asked to fund non-competitive cost-based contracts based on full economic costs defined by TRAC¹. Although the case for providing assurance on the reliability of TRAC implementation in HEIs is therefore compelling, we have sought to minimise the burden associated with this activity.

BACKGROUND

3. The Transparent approach to costing (TRAC) methodology was developed in 1999-2000 to meet the Government's requirements for improved accountability, at institutional level, for the use of public funds following the 1998 Spending Review. The UK HE sector was required to implement the TRAC methodology for reporting on academic year data for 1999-2000, with improvements to the robustness being implemented over a five-year period, leading to fully robust implementation for reporting on academic year 2003-04.
4. An independent review of the principles and conceptual basis for the TRAC methodology was undertaken by the Financial Reporting and Activity Costing Group (FRACG). This concluded that the TRAC methodology was fit-for-purpose as a mechanism for demonstrating accountability for public funds, and that there was a sound conceptual basis for the methodology and the economic adjustments. It also concluded that there was a need to provide further assurance to Government and sponsors that the implementation of TRAC within HEIs is robust, in particular because the Government is making significant additional investments in the HE sector on the basis of the TRAC methodology.
5. The UK funding bodies and the Research Councils have therefore established a review process which is capable of providing an independent assurance to a range of stakeholders (including Funding Councils, Research Councils, HM Treasury and other government departments) on the robustness of the embedding of the original TRAC implementation within HEIs.
6. JM Consulting has designed the assurance process, and KPMG staff, on secondment to HEFCE, will undertake the Quality Assurance reviews. The process is light-touch and developmental to help HEIs in achieving a robust implementation of TRAC at institution level and provides a sound foundation for extending the TRAC methodology for forecasting full economic costs at project level. The process is sensitive to the need to minimise burden by using the results of HEIs' own internal review processes, and recognises that HEIs are not yet at the end of the five-year implementation period. The process will focus on the most significant areas within HEIs' cost structures and on the areas where HEIs have requested guidance. It also uses the benchmarking tool which HEIs used at earlier stages in the TRAC implementation process. The specification for the quality assurance process is summarised at Annex A.

¹ Letter from HM Treasury, 'University research: costs to government departments' 13 February 2004, circulated to HEIs under cover of EP 04/2004

² HEFCE Circular letter 26/2003 'Review of financial reporting and activity costing'

7. Those HEIs that are able to provide assurance of a robust system will be eligible to apply their own estates charges and indirect cost rates for non-competitive cost-based contracts with other government departments. This assurance will also be a requirement for Research Council project applications from September 2005.
8. A full description of the process, the self-assessment checklist, and the template for benchmarking of data will be sent to your institution's Director/ Head of Finance by the QA team shortly. Electronic versions of these documents for return to the Quality Assurance team will be available for download from the HEFCE web-site at www.hefce.ac.uk under Finance/Transparency Review.
9. All institutions should complete the self-assessment checklist and the benchmarking template and return it to the quality assurance team by **Monday 31 May 2004**.
10. There will also be two further rounds of benchmarking in December 2004 (on 2002-03 data) and March 2005 (on 2003-04 data) to assist with calculation of indirect cost rates on the new basis to meet the requirements for applying full economic costing at project level (refer to Transparent Approach to Costing, Volume III Full economic costs of projects, Section B1.6, published February 2004), and to establish the default rates for the sector.

TIMETABLE FOR QUALITY ASSURANCE TEAM VISITS

11. The timetable for quality assurance team visits will focus on those institutions with the largest volumes of publicly-funded research in the first phase with visits taking place between April and July 2004. A list of the 50 HEIs with the largest volumes of publicly-funded research based on 2002-03 is at Annex B. These HEIs will be covered in the first round of visits.
12. For all other institutions, the aim is for visits to take place between July and December 2004. However, some visits may take place between January and July 2005. The proposed schedule of visits for these institutions will be determined by the quality assurance team, informed by the team's initial review of the HEI's self-assessment and benchmarking return, and in discussion with the HEI. Therefore HEIs outside the most research-intensive group will have a choice on the timing of their QA visit. If an institution chooses to have an assurance visit later in the schedule however, it will have less time to address any issues that may arise. This may affect its ability to bid for Research Council projects from September 2005, or the costs that can be recovered from Research Councils and other government departments. This is because until the quality assurance review has taken place and confirms that the HEI's TRAC implementation is sufficiently robust the lower default rates for indirect costs will be applicable.
13. A confidential report will be provided to each HEI on areas for development or where action is required. Material areas of weakness identified by the QA team need to be addressed by August 2005, or a lower cost recovery from Research Councils and other government departments will result. Either a lower default indirect cost rate would have to be applied, or estates charges or principal investigator costs could not be applied, until all material action points identified during the QA visit have been addressed by the institution.
14. In addition to the confidential, individual reports to HEIs, KPMG will be responsible for producing summary reports on findings across the sector in August 2004 and January 2005 for reporting to stakeholders and to the sector. The QA team will also provide feedback to HEIs on benchmarking (on an anonymised basis).
15. KPMG will write to all HEIs shortly providing further information about the QA process and to make arrangements for the visits. For further information about the visits, contact the Quality Assurance Team, details below.

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16. For further information about this letter and the overall approach to the joint quality assurance process, contact Heather Williams at HEFCE, 0117 931 7113, e-mail h.williams@hefce.ac.uk or Richard Hirst, 02920 682253, e-mail richard.hirst@hefcw.ac.uk

Quality assurance process for TRAC

This paper describes the quality assurance (QA) process that will be undertaken to review the implementation of the Transparent approach to costing (TRAC). It was written by J M Consulting.

A summary of the QA process was given in the TRAC guidance (Transparent approach to costing: Volume III Full economic costs of projects, paragraphs B1-218 et seq) published by the JCPSG in February 2004. The process has developed slightly (for example the timescale has been extended), and this paper updates any earlier description.

The process will be tested over March and April 2004, and some aspects may be further developed as a result.

Information about any aspect of this process, and any developments made to the process, is available from:

- KPMG (the QA team)

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- the HEFCE web-site at www.hefce.ac.uk/Finance/TransparencyReview

Quality Assurance process for TRAC

Context and Description

Introduction

1. The Transparent Approach to Costing (TRAC) was accepted by the Government as an appropriate method for costing Teaching, Research and Other activities in 1999, following J M Consulting's Report to the Science and Engineering Base Co-ordinating Committee (commissioned by the Joint Costing and Pricing Steering Group, JCPSG)¹.
2. The requirements and costing methods were then set out in detail in the TRAC Guidance Manual, two volumes of which were issued in July 2000, and a supplement to the second volume issued in December 2002.² All higher education (HE) institutions in the UK sector started implementation on 1999/2000 data, and nearly all institutions reported formally to the Funding Councils for the first time in 2001 on that data.
3. The initial TRAC Guidance consists of
 - 10 costing standards which are mandatory for institutions to be in compliance with TRAC;
 - minimum requirements which are also mandatory, expressed through the word **should**;
 - detailed advice, guidance and suggestions, including discussions of options, advice on decisions and examples;
 - advice on implementation.
4. Institutions were given five years to comply with the standards – the final year in this first cycle is 2003-04 data (reporting in January 2005).
5. In 2003 the Office of Science and Technology asked JCPSG to make proposals to extend TRAC to allow the preparation of the costs of research and other projects on a full economic cost (fEC) basis. The Guidance was formally published in February 2004.³
6. Institutions that wish to claim funding for research projects from the Research Councils (and from Other Government Departments (OGDs) on a fEC basis) will need to be able to cost projects on a fEC basis by January 2005, and to make bids to the Research Councils on this basis from September 2005.

¹ Transparency Review of Research. Proposals for a new uniform approach to the costing of research and other activities in universities and colleges of higher education. June 1999. www.jcpsg.ac.uk/transpar/99july/index.htm

² Transparent Approach to Costing. Volume II, Overview and Implementation Pack, and Volume II, Reference Manual, July 2000. Volume IIa, Updates and Supplementary Guidance, December 2002. Produced for JCPSG by J M Consulting Ltd.

³ Transparent Approach to Costing. Volume III. Full Economic Costs of Projects. Produced for JCPSG by J M Consulting Ltd. February 2004. Available from HEFCE at publications@hefce.ac.uk

7. The fEC requirements outlined in Transparent Approach to Costing. Volume III are significantly based on the initial 1999 Guidance. It presents new guidance on how costs should be attributed to projects – in particular, principal investigator and co-investigator time, major research facilities, estates costs, and indirect costs. The new guidance on the calculation of estates charges and indirect cost rates develops the 1999 Guidance considerably, and introduces new calculations.
8. Sponsors of HE Research wish to be reassured that the initial 1999 TRAC Guidance has been implemented successfully and robustly, and that these and the new fEC requirements are being met by all HE institutions that wish to bid for Government funding for research work from 2005. A Quality Assurance (QA) process is to be carried out during 2004 to provide this reassurance.
9. It is recognised that the first five year cycle for the implementation of TRAC is not yet at an end, and that some institutions are deliberately merging the remaining work on the initial implementation with the new fEC work, as this is the most efficient and effective way of meeting requirements. The QA process is therefore to be a constructive process, providing assistance and advice to institutions as they continue to develop their systems and meet the initial requirements whilst planning for the new requirements.
10. The robustness of the estates charges and indirect cost rate are of particular interest to the UK HE funding bodies and Research Councils, and these are to be benchmarked during the Quality Assurance process. This benchmarking will provide sector average, and percentile, figures.
11. Institutions will only be able to apply estates costs, PI salary costs and their own indirect cost rate if their methods are sufficiently robust by September 2005 (or as soon as they intend to use these charges and rates for bidding for projects from Other Government Departments, which could start now).

Outcomes of the QA process

12. The principal issues to be addressed through the QA process are:
 - a. Have HEIs implemented TRAC at institutional level, including being able robustly to distinguish research costs by research sponsor type?
 - b. Have the calculation of estates charges and indirect cost rates been prepared in accordance with TRAC fEC principles?
 - c. Do HEIs have their own quality assurance mechanisms in place in accordance with the TRAC guidance to ensure compliance with the TRAC requirements and robustness of the data reported at institutional level?

- d. Is the planned implementation in HEIs likely to provide a sound basis for extension of the TRAC methodology to the forecasting and recording of full economic costs at project level?

13. Six main outcomes of the QA process are required:

- 1) to provide institutions with advice as they finish their implementation of the initial TRAC requirements, and commence their planning and implementation of the new TRAC fEC requirements. A set of action points will be suggested to each participating institution, that will focus on the most significant areas where changes should be considered if the initial TRAC requirements are to be met;
- 2) to benchmark estates charges and indirect cost rates, and to advise on and calculate a default indirect cost rate for the sector (based on a percentile, subject to distribution);
- 3) to visit all HE institutions in the UK, May 2004 to July 2005, and assess whether their methods are sufficiently robust to allow them to apply estates charges, principal investigator staff costs, and their own indirect cost rates, or whether they need to apply the default indirect cost rate (if lower): and to inform them of this (and the reasons);
- 4) to receive at least one report from each institution on progress towards meeting the significant action points raised by the QA team;
- 5) to produce two reports on sector implementation – one by the end of August 2004 (which would help to inform J M Consulting's September 2005 Update to Volume III); and the second in January 2005. These will summarise the common or most significant areas where institutions are having problems (and how these are being resolved); suggest changes to the Guidance Manual; and suggest to JCPSG what training or good practice might usefully be developed for the sector.
- 6) to provide reports to the Steering Group.

An overview of the QA process

14. The QA process is not a financial audit. It does not include a review of the calculations or an audit of the figures being produced. There is no stigma attached to decisions that result from the process. Obviously if these indicate that the default indirect cost rate (or lower costs in other areas) may need to be applied, then this means that some actions need to be undertaken by that institution to improve robustness, but this is in the context that the first five-year time cycle is not yet complete.
15. The QA process is, instead, a developmental review. It will review the methods and processes being used and help to consolidate implementation of the initial TRAC methods and work towards the new fEC TRAC requirements. The process will focus on the areas that are most likely to be both less robust than required; and significant in their potential impact.
16. The QA process could be described as a high-level reasonableness review, looking at the processes that institutions have implemented and the resulting robustness of their TRAC figures, and drawing upon the experience of common errors or areas of difficulty that has been built up by J M Consulting and that will be developed within the QA team.
17. As well as being as helpful to institutions as possible, it is planned to be light-touch, leading to minimal additional burden on institutions.

Institutional involvement

18. The QA process is mandatory – all institutions that wish to bid for Research Council projects from September 2005, or that wish to bid for OGD projects on a fEC basis, will need to participate. This is irrespective of the size or type of institution, or the volume of their Research activity. In practice it is expected that institutions will welcome this type of developmental review.
19. If institutions are unable to participate in the process, or have methods that fall significantly short of the required standards, or cannot agree the actions required with the QA team, then they will only be allowed to apply the default indirect cost rate, and cannot include the costs of estates or of principal investigators, when using their fEC to determine the price on Research Council and (cost-based) OGD projects.
20. If institutions are unable either to calculate estates charges on the new fEC basis, or to estimate principal investigator (PI) time on a project, then those institutions will be unable to charge that particular item of cost to Research Councils or OGDs (but would still bid on the same basis, and would be able to include other costs, including their indirect cost rate calculated on the new fEC basis).

The process

21. There are two main parts to the QA process. These are described briefly below:

- I **a self-assessment checklist** and **benchmarking template** to be completed by the institution by 31 May 2004,

more limited benchmarking exercises in December 2004 and March 2005 which will be focussed on indirect cost rates and estates charges, followed by the derivation of a default indirect cost rate for the sector.

- II **a QA visit** to each institution, drawing upon the self-assessment and benchmarking information. –A set of action points for each institution will be agreed by the end of this visit. Each action will be classified as either:

i) a significant action point, which, if not addressed satisfactorily, might lead to a decision that:

- the institution can only apply the default indirect cost rate to Research Council and OGD projects (or the lower of this and the institution's own calculated rate); or
- the institution cannot charge principal investigator salary costs to these projects; or
- the institution cannot apply estates charges to these projects.

Before all costs can form the basis of the cost-based price the institution's internal audit team will be required to report to an institutional committee when the significant action points have been addressed.

ii) a developmental action point, which needs to be addressed, and then confirmed as such by senior management to an appropriate institutional committee.

Reports from the QA team

22. As well as reporting benchmark information to the sector, the QA team is to produce reports to the sponsors on the process. A default indirect cost rate is to be calculated and published by sponsors.

23. Two reports will be made to the sponsors of the QA process (the HE funding councils and Research Councils). These will be made available to the sector.

24. An interim report will be provided in September 2004. This will:

- summarise key points arising from the institutional visits made so far and from the self-assessment checklists completed by other institutions;

- give statistical information on the numbers (and broad types) of institutions who will need to address significant areas of weakness before they can apply their own indirect cost rate; or an estates charge or –PI staff cost;
 - suggest any changes to the QA process as a result of the first three months of implementation;
 - provide feedback to institutions on the most common areas of weakness, and how these could be addressed;
 - suggest any changes to the Guidance that would clarify the methods (or change them if necessary) to make implementation easier or more robust. As a result of this, J M Consulting will issue an Addendum, as appropriate, in September 2004.
25. A final report will be made by the QA team early in 2005 that will bring in additional information from the rest of the institutional visits carried out by that time.
26. In February 2005 the default rate will be recalculated based on 2003-04 data, and published by sponsors.

The QA process post-July 2005

27. It is envisaged that the funding bodies will commission a review of the QA process in 2005.
28. It is possible that the QA process will operate periodically following this, but this is yet to be determined.

HEIs to be covered in the first phase of QA team visits (April to July 2004)

**Defined by Research income from Funding Councils and OST Research Councils for 2002-03
(Source: HESA Finance Statistics Return Table 5b)**

England

University of Bath
Birkbeck College
University of Birmingham
University of Bristol
Brunel University
University of Cambridge
Institute of Cancer Research
Cranfield University
University of Durham
University of East Anglia
University of Essex
University of Exeter
Imperial College
King's College London
Lancaster University
University of Leeds
University of Leicester
University of Liverpool
London School of Economics & Political Science
London School of Hygiene & Tropical Medicine
Loughborough University
University of Manchester
UMIST
University of Newcastle upon Tyne
University of Nottingham
Open University
University of Oxford
Queen Mary, University of London
University of Reading
Royal Holloway, University of London
University of Sheffield
University of Southampton
University of Surrey
University of Sussex
University College London
University of Warwick
University of York

Scotland

University of Aberdeen
University of Dundee
University of Edinburgh
University of Glasgow
Heriot-Watt University
University of St Andrews
University of Strathclyde

Wales

Cardiff University

University of Wales, Aberystwyth

University of Wales, Bangor

University of Wales, Swansea

Northern Ireland

Queen's University Belfast

University of Ulster

HEIs to be covered in the second phase of QA team visits (July to December 2004)

**Defined by Research income from Funding Councils and OST Research Councils for 2002-03
(Source: HESA Finance Statistics Return Table 5b)**

England

Anglia Polytechnic University
Aston University
Bath Spa University College
Birmingham College of Food, Tourism and Creative Studies
Bishop Grosseteste College, Lincoln
Bolton Institute of Higher Education
Arts Institute at Bournemouth
Bournemouth University
University of Bradford
University of Brighton
Buckinghamshire Chilterns University College
Canterbury Christ Church University College
University of Central England
University of Central Lancashire
Central School of Speech and Drama
University College Chester
University College Chichester
City University, London
Courtauld Institute of Art
Coventry University
Cumbria Institute of the Arts
Conservatoire for Dance and Drama
Dartington College of Arts
De Montfort University
University of Derby
University of East London
Edge Hill College of Higher Education
Institute of Education
Falmouth College of Arts
University of Gloucestershire
Goldsmiths College
University of Greenwich
Harper Adams University College
University of Hertfordshire
University of Huddersfield
University of Hull
Keele University
University of Kent
Kent Institute of Art & Design
King Alfred's College, Winchester
Kingston University
Leeds Metropolitan University
University of Lincoln
Liverpool Hope University College
Liverpool John Moores University
University of London

London Business School
The London Institute
London Metropolitan University
London South Bank University
University of Luton
Manchester Metropolitan University
Middlesex University
Newman College of Higher Education
University College Northampton
University of Northumbria at Newcastle
Norwich School of Art & Design
Nottingham Trent University
School of Oriental and African Studies
Oxford Brookes University
School of Pharmacy
University of Plymouth
University of Portsmouth
Ravensbourne College
RCN Institute
Rose Bruford College
Royal Academy of Music
Royal Agricultural College
Royal College of Art
Royal College of Music
Royal Northern College of Music
Royal Veterinary College
St George's Hospital Medical School
College of St Mark & St John
St Martin's College
St Mary's College
University of Salford
Sheffield Hallam University
Southampton Institute
Staffordshire University
University of Sunderland
The Surrey Inst of Art & Design University College
University of Surrey Roehampton
University of Teesside
Thames Valley University
Trinity & All Saints
Trinity College of Music
University of West of England, Bristol
University of Westminster
Wimbledon School of Art
University of Wolverhampton
University College Worcester
Writtle College
York St John College

Scotland

University of Abertay Dundee
Bell College
Edinburgh College of Art

Glasgow Caledonian University
Glasgow School of Art
Napier University
University of Paisley
Queen Margaret University College Edinburgh
Robert Gordon University
Royal Scottish Academy of Music & Drama
Scottish Agricultural College
University of Stirling
UHI Millennium Institute

Wales

University of Glamorgan
Royal Welsh College of Music and Drama
Swansea Institute of Higher Education
Trinity College
University of Wales, Lampeter
University of Wales Centre for Advanced Welsh & Celtic Studies
University of Wales College of Medicine
University of Wales College, Newport
University of Wales Institute, Cardiff
North East Wales Institute