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Circular

Institutional assurance reviews: revised approach

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This circular provides information on HEFCW's revised arrangements for conducting cyclical institutional assurance review visits to assess the effectiveness of higher education institutions' governance, risk management and internal control arrangements.

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Introduction

- 1 Our Strategic Engagement circular indicated that we would be adopting a more risk-based approach to institutional assurance reviews (W09/20HE, paragraph 23 refers). This circular provides details of our new arrangements.

Institutional assurance: context and purpose

- 2 In July 2010 we published our Corporate Strategy 2010-11 to 2012-13. This new Strategy, along with our annual operating plans, will serve as our action plan for the delivery of the Welsh Assembly Government's *For Our Future* strategy for higher education.
- 3 Our Corporate Strategy includes five key strategic themes and these are underpinned by two further enabling themes – Reconfiguration and Collaboration, and Governance. The Governance theme is aimed at delivering continual improvement in the quality of governance and the long term sustainability of the Welsh higher education system. This theme provides the broader context of HEFCW's on-going responsibility for providing assurance on the governance, risk management, and internal control arrangements in place within individual higher education institutions and across the higher education sector as a whole.
- 4 HEFCW's assurance service is responsible for providing assurance to the Council and to the Chief Executive (as accounting officer) on the adequacy and effectiveness of institutions' governance, risk management, and internal control arrangements to safeguard the public funds paid to those institutions. HEFCW is also required to advise the Welsh Assembly Government on the quality of governance at higher education institutions (HEIs) in Wales through an annual governance assurance statement.
- 5 We set out our requirements for HEIs' accountability and audit arrangements in the Audit Code of Practice. Compliance with the mandatory requirements of the Audit Code of Practice is a requirement of the Financial Memorandum between HEFCW and HEIs in Wales, and is therefore a condition of grant. Our current Financial Memorandum and Audit Code of Practice were published in November 2008 as circular W08/36HE.

Institutional assurance review visits: current arrangements

- 6 We meet our responsibility for providing assurance about institutions' governance, risk management, and control arrangements in a variety of ways. They include:
 - the receipt of annual assurance returns from HEIs, including the annual report of the internal auditors; the external auditor's opinion

on the Financial Statements and their management letter; and the audit committee's annual report.

- our data assurance processes; and
- a cyclical programme of institutional assurance review visits.

Our institutional assurance review visit programme has been operating on a triennial basis for many years, and we recently completed a fifth round of full reviews.

- 7 To date, our full institutional assurance reviews have comprised detailed assessments of a wide range of institutional documents, including governing body committee papers from the preceding 18 months and various other policy and governance documents. Our review visits have taken place over a two day period during which, in addition to the documentation reviews, we have held discussions with various senior members of staff and with the chair of the audit committee. We have also met with the institutions' internal auditors and, as necessary, with their external auditors.
- 8 The outcome of our assurance reviews have been set out in detailed review reports, structured around our observations and findings in the areas of governance; risk management; financial management; internal control; and audit processes. Our reports have concluded with a list of recommendations set out in a Management Implementation Plan.
- 9 We now propose to revise the content of future institutional assurance review visits.

Revised approach to institutional assurance reviews

- 10 Our Strategic Engagement circular (W09/20HE) outlined how we intend in various ways to improve the quality and effectiveness of our strategic engagement with higher education institutions in Wales. One of the changes announced in the circular was that we intended to adopt a more risk-based approach to institutional assurance reviews, under which we would be placing more reliance for assurance on institutions' own processes.
- 11 Although we are revising our approach to institutional assurance reviews, it is important to emphasise that their ultimate purpose will remain the same. That is, they will continue to serve as a key source of information for providing assurance on the governance, risk management, and internal control arrangements established to safeguard public funds paid by HEFCW to HEIs. The revisions to our approach do not change the responsibility of each institution to have effective governance, risk management, and internal control arrangements as a means of ensuring that the institution is meeting its own objectives and managing risks;

complying with relevant laws and regulations; maintaining the integrity and reliability of its accounting records and other data and information; and promoting the economic, efficient and effective use of resources.

- 12 In our revised approach we will focus more on seeking evidence for the robustness of institutions' own risk management, control and governance arrangements. We will look for this evidence, in particular, through the assurances and opinions provided by institutions' own internal and external auditors, and the reports of the audit committee. Consequently, we will no longer be conducting routinely our own detailed reviews of documentation, other than those submitted as part of the annual assurance returns. However, if we have identified specific or significant risks associated with an institution's assurance and governance arrangements (for example, from our Institutional Risk Review process, or from other information or evidence of which we become aware), then we may adjust the scope of our institutional assurance review accordingly. In certain circumstances, we may also determine that there is a need to commission an independent review of an institution's governance arrangements to complement our own institutional assurance review process.
- 13 In future our institutional assurance review visits will incorporate the following elements:

Less detailed review of documentation

- 14 We will no longer review institutions' Board or Committee papers and minutes as a matter of course, but only by exception. Instead, our review of documentation will be mainly limited to the following, which will be carried out ahead of visits to institutions:
 - The set of annual assurance returns submitted by each HEI each year as mandatory requirements under the Audit Code of Practice (viz. Annual Assurance Return signed by the head of institution; Audit Committee Annual Report; Internal Audit Annual Report; External Audit Management Letter).
 - The annual Financial Statements.
 - Correspondence with institutions on their strategic plans, and the monitoring reports provided to governing bodies on the progress made in delivering the plans.
 - Internal audit strategies and internal audit reports specifically relating to institutions' governance and risk management arrangements.
 - Data Audit reports.

- Latest QAA institutional reviews, specifically where these include references to any management or governance issues.
- Documents published on institutions' websites, including those relating to governance matters (such as details of governing body and committee membership and published minutes of their meetings; Statutory Instruments; and Standing Orders)
- Documents relating to equality and diversity.

Discussions with chairs of governing bodies, heads of institutions and other key staff

- 15 Discussions with key personnel will remain a crucial aspect of our institutional assurance review visits. In particular, we will wish to have discussions with the chair of the governing body; the vice-chancellor; the chair of the audit committee; and the clerk/secretary to the board. However, we may also wish to speak with other senior managers and will alert institutions ahead of the visit if this is the case.
- 16 Visits will be carried out by a minimum of two HEFCW assurance staff. Other HEFCW staff with responsibility for specific areas may also take part as deemed necessary.
- 17 The focus of our discussions with institutions will vary depending on the particular circumstances of, and issues facing, that institution at the time. Generally, however, we would expect all discussions to cover at least the following broad areas:
 - How the institution prepares its strategic plan, and how the governing body is involved in the development and final approval of the plan.
 - How the institution ensures coherence of, and complementarity between, its strategic and operational planning; the establishment of key performance indicators; risk management, and budget setting and monitoring.
 - How the institution and its governing body monitors progress against its strategic objectives, key corporate risks, and performance indicators.
 - How the institution identifies the risks relating to its medium- to long-term financial sustainability and monitors progress in addressing these.
 - How the institution seeks to develop and maintain its leadership, governance and management capacity.
 - How the governing body reviews and monitors its own effectiveness.

- How the institution determines its assurance and internal audit plans, and actively ensures that it addresses recommendations arising from audit reviews.
- How the governing body ensures it is sufficiently informed about all relevant matters, including academic quality issues.
- How the institution ensures that its governance processes and procedures are at least equivalent to the Committee of University Chairs' (CUC's) recommended practices.

Engagement with internal and external auditors, and with representative groups

- 18 We propose more regular engagement with institutions' internal auditors to complement any dialogue which may take place around institutional assurance reviews. In particular, we will be organising an annual gathering of all internal auditors working at Welsh HEIs in order to explore common issues; provide a forum to discuss HEFCW's institutional assurance expectations (as set out in the Audit Code of Practice and in other guidance); and to share updates on latest developments.
- 19 Our engagements with external auditors will be arranged around institutional assurance reviews as necessary.
- 20 We will also continue to attend the meetings of the Welsh finance directors; clerks and secretaries; and data managers, all of which provide useful forums for discussion of sector-wide issues relating to finance, governance and student data.

Timing and frequency of institutional assurance review visits

- 21 We intend to begin our first round of assurance review visits under these new arrangements from early 2011. We will be organising future visits on a regional basis, beginning in the North and Mid Wales region. We will continue to carry out assurance review visits on a roughly three-year cycle.
- 22 With the removal of detailed documentation review from the revised processes, institutional assurance visits will in future likely require only one day rather than two days as presently.

Reporting and the Freedom of information Act

- 23 Under the new arrangements institutional assurance review reports will be briefer and will focus only on key findings and issues. As is the case now, reports will be issued in confidence to institutions.

- 24 As a public authority HEFCW is subject to the Freedom of Information Act 2000. The Act gives a public right of access to any information held by a public authority. Information submitted to HEFCW may be disclosed on request under the terms of the Act. We have a responsibility to decide whether any responses should be made public or treated as confidential. We may refuse to disclose information in exceptional circumstances, such as where disclosure of information would prejudice commercial interests. Further information about the Act, including the particular circumstances when information may be withheld, can be found at www.ico.gov.uk under Freedom of Information Act.

Welsh Assembly Government review of higher education governance

- 25 In July 2010 the Minister for Children, Education and Lifelong Learning published the membership and terms of reference of the review of Welsh HE governance. At the time of writing, the intention is that the review team will submit its report to the Minister in Spring 2011. Once the outcome of the review, and the Assembly Government's response to it, are finalised we will consider whether any amendments are required to our institutional assurance review programme to reflect the governance review recommendations.

Equality and diversity implications

- 26 We are committed to making equality a core issue in developing and implementing our policies. We must assess the impact of our policies on individuals with protected characteristics (age, disability, gender reassignment, marriage/civil partnership, pregnancy/maternity, race, religion and/or belief, sex and sexual orientation) and set out how we will monitor or address any possible negative impact.
- 27 We have carried out an equality impact assessment (EIA) screening on the arrangements set out in this circular to help safeguard against discrimination and promote equality. We also considered the impact of policies on the Welsh language, and Welsh language provision within the HE sector in Wales. The outcomes of the screening will be available on www.hefcw.ac.uk. To contribute to our EIA process, contact us at equality@hefcw.ac.uk to be added to our stakeholder database. For more details, see www.hefcw.ac.uk > Working with HE Providers > Equality and Diversity.

Further information

- 28 For further information, contact Dale Hall (029 2068 2280; dale.hall@hefcw.ac.uk).