

THE UNIVERSITY OF SHEFFIELD
ANNUAL REPORT OF THE AUDIT COMMITTEE
2015-16

1. Introduction

The Audit Committee is required by the Higher Education Funding Council to report annually on its activities to Council and to the Vice-Chancellor as the University's accountable officer. This Annual Report, for the 2015-16 session, has been prepared in accordance with the requirements of the HEFCE Memorandum of Assurance and Accountability and the Committee of University Chairs' Handbook for Members of Audit Committees' model format.

The report is presented to Council for consideration and approval.

A copy of the Annual Report has then to be sent to the Chief Auditor of HEFCE.

2. Membership

Membership of the Committee during the year was as follows:

Mr David Bagley 2014-2016*

Mr Adrian Belton* 2014-

Professor Shelagh Brumfitt 2015-

Mr Kevin Cunningham 2013-

Mrs Margaret Ferris 2013-

Mrs Sarah Harkness* 2009- (chair from August 2011)

Mrs Alison Legg* 2012-

Mr Richard Mayson* 2012-

*denotes members of the University Council during the period.

One new member, Professor Shelagh Brumfitt, joined the Committee at the beginning of the year. During the year Mr David Bagley resigned from the Committee in order to take up a position on the University's Finance Committee. Since the year end, Ms Claire Davis has joined the Committee. There are currently no vacancies.

3. Committee Meetings

The Committee met five times during the session. All the Committee's meetings were attended by representatives of the University's Internal Auditors, PricewaterhouseCoopers (PwC) and its External Auditors, KPMG.

The Deputy Vice-Chancellor, Professor Shearer West, the University Secretary, Dr Andrew West, the Chief Financial Officer, Mr Bob Rabone, and the Director of Finance, Mrs Helen Dingle, regularly attended meetings of the Committee as observers, as did other members of Professional Service Departments as required. The Committee is grateful for their input. Mr David Swinn has acted as Secretary to the Committee and we would like to thank him for his help.

For 2015-16, the University introduced electronic circulation of Audit Committee papers using 'Board Pad', which provides secure digital board and meetings packs, accessed through Apple or Windows devices. The software has been well-received by the Committee.

On 26 November 2015 Audit Committee met jointly with Finance Committee, to consider the draft Financial Statements for 2014-15 and KPMG's Audit Highlight Memorandum and Management Letter.

The Audit Committee continues regularly to meet in private, without University staff present. In appropriate cases the external and/or internal auditors attend, in particular on completion of the audit of the financial statements

4. Terms of Reference and Procedures

There were no changes to the Committee's terms of reference during the year. The Committee continues to work to HEFCE's guidance, as set out in the MAA and as elaborated in the CUC's Handbook for Members of Audit Committees in HEIs, and the CUC Higher Education Code of Governance.

In considering internal audit reports the Committee focuses on the most serious findings. In PwC's model, these are overall report classifications of critical, high, medium or low risk, together with individual finding ratings of critical, high, medium, low or advisory, applied as appropriate to impact on operational performance, monetary or financial statement impact, breaches in laws and regulations potentially resulting in material fines or consequences, and impact on institutional reputation or brand. Departmental heads are routinely invited to attend where opinions or findings at critical or high levels are offered in respect of their departments. This allows joint exploration of the issues raised, the management response and the action plan, which will normally have been formulated by the time the audit report reaches the Committee. Recommendations of medium or low priority are taken on a 'by exception' basis.

The formal process of following-up and reporting outstanding audit recommendations has continued, but in the light of the good progress made, our internal auditors are now reporting to the committee on follow-up work only twice a year.

5. Internal Audit

5.1 Internal Audit Service

The 2015-16 session was the seventh in which the internal audit service was provided by PricewaterhouseCoopers, the second under the current three year contract with the option to renew for two further one year periods. The University's Head of Internal Audit is Mr Ian Looker, partner in PwC.

The Committee has a responsibility to monitor the effectiveness of Internal Audit. Together with management, it has agreed with PwC a number of Key Performance Indicators for the internal auditors' work, and it reviews these regularly. Process indicators, for example for meeting set timescales for delivery of reports, have generally been met during the year. The Finance Department has canvassed departments involved in audits, by way of questionnaire, throughout the session. Response rates have been good and feedback mostly positive, although the Committee has noted an increase in the amount of negative feedback but is confident that PwC is taking steps to address this as appropriate.

5.2 Audit Strategy 2015-16

The Internal Audit strategy and plan for the session was formulated following discussions between PwC and senior University managers, and subsequently with the Committee. The planned internal audit input for the year was 250 audit days, comprising 17 planned reviews. In the event 230 days were provided (2014-15: 228) and an additional review was added to the plan at the request of the Committee and University management.

5.3 Internal Audit Reports 2014-15

Eight reports by PwC for the 2014-15 academic year were submitted to the Committee at its meeting in October 2015 and two reports were submitted to its November meeting. These were reports which had not been completed and cleared during the previous session and were considered in the Committee's previous annual report.

5.4 Internal Audit Reports 2015-16

18 reports have been completed by PwC under the 2015-16 audit plan, as well as two follow-up reviews and one advisory review of data governance for which an overall risk rating was not issued due to the nature of the work. Thirteen were presented during the session and a further four in respect of the session at the meeting in October and one in November 2016. A full list of reports is set out in the Internal Auditors' Annual Report.

Seven audits received a low risk classification, which is satisfactory and five reports were classified as medium risk. There were three high risk reports that contained six high risk findings in total, compared to two last year, which is disappointing. As last year, there were no Critical findings. It is also disappointing that medium priority findings increased significantly to 44 (compared to 24 in 2014-15 and just 20 in 2013-14) but there was a slight decrease in low priority findings from 36 to 34. The Committee believes that this increase in medium and high risk findings is due to better targeting of more difficult areas for audit and review. Additional context is provided in the Internal Audit Annual Report.

Three reports, HR Staff Performance and Appraisals, Subsidiaries – CTI Ltd, and Ethical Governance received a high risk rating, including six high risk findings, although there no individual high risk findings in the HR report. Reports which contained two or more medium risk findings included:

- Residences – UUK Compliance Review
- IT General Controls and Disaster Recovery
- Risk Management
- HR Staff Performance and Appraisals
- Subsidiaries – CTI Ltd
- Data Governance
- Purchasing – Value for Money
- Research Data Governance
- Finance – Continuous auditing phase 2
- Ethical Governance
-

In each of these reports, satisfactory management action plans have been agreed and are being implemented. The Committee regularly monitors progress against these plans.

PwC's annual report for 2015-16 (attached) was received by the Committee in final form on 23 November 2016, a draft having been seen in October. Based on the work completed, except for those areas described above, PwC believes that the University has adequate and effective arrangements covering:

- Risk management, control and governance;
- Economy, efficiency and effectiveness (Value for money);
- Management and quality of data submitted to HESA, HEFCE, the Student Loans Company and other funding bodies.

5.5 Follow-Up of Internal Audit Recommendations

Significant progress has been made in the last four years on the implementation of Internal Audit recommendations, with the formalisation of a follow-up and reporting process led by Finance, and with testing and verification performed by PwC. By October 2016, the verified assessment is that 83% made in 2012/13, 80% made in 2013/14 and 62% made in 2014/15 have been fully implemented or closed. 41% of recommendations made during 2015/16 at the point of follow up have already been fully implemented.

During the year, the internal auditors verified 88 recommendations in total and in only one instance did their assessment of progress differ from that of management. Of the 80 recommendations not implemented at the latest follow up, 32 were past the original implementation date. Of these three are high risk recommendations, one from 2012/13 has

now been self-assessed as fully implemented and this will be tested in the next follow-up review; and two from 2014/15 that are now self-assessed as partially-implemented having been delayed by the appointment of external consultants. On the whole, the Committee is pleased with the progress made this year, but will continue to insist on rigorous follow-up of previous recommendations. We continue to encourage the University to help managers understand that internal audit is a management tool that should be used positively.

5.6 Audit Strategy 2016-17

The Audit Committee has considered and approved the draft audit strategy for 2016-17 prepared by the Internal Auditors in consultation with University management. The Internal Auditors have proposed, and the Committee has endorsed, the provision of 250 days in 2016-17 (2015-16: 235).

5.7 Additional Activity by PwC

In addition to their work under the Internal Audit Plan 2015-16, PwC have also provided VAT advice on shared accommodation and other recharges from Sheffield Teaching Hospitals. That totalled £122,334. PwC have also been appointed to advise on tax matters in relation to members of staff working in South Africa, during 2016/17.

6. External Audit

6.1 External Audit Service

KPMG continue to provide the University's external audit service, having been appointed by competitive tender in July 2002, March 2007 and again in June 2011. That contract is due to expire on 31 December 2016 and Council has approved the appointment of KPMG as the provider of external audit at its meeting in July 2016 following a competitive tender and consideration by the Committee. The new contract will commence on 1 January 2017 for three years with the option to extend the contract for a further two years, subject to satisfactory annual review of performance.

The annual external audit fee for 2015-16 is a lump sum fee in accordance with the original contract. It is subject to increases in line with the Retail Price Index and for any additional work carried out that was not included within the contract.

In January 2016 the Committee considered a review to evaluate the performance and effectiveness of the University's external auditors and agree the scope of the competitive tender for the new external audit contract. Questionnaires were completed by members of Audit Committee, Finance Committee and the Finance Department. This concluded that, overall, KPMG were meeting expectations and delivering external audit to a high standard. Written and verbal feedback was provided to KPMG on a number of issues, including discussion about the reporting process for the audit of University subsidiary companies and the timeliness of some other reporting.

6.2 Additional Activity by KPMG

In 2015-16 KPMG provided additional services for the University totalling £129,729. These included £85,549 in respect of grant and loan audits, £20,880 relating to tax and related service services and £23,300 relating to other non-audit costs, including transition to FRS102, short-term cash-flow forecasting at CTI Ltd, a wholly owned University subsidiary company, and contract assurance for an agreement between AMRC and the Skills Funding Agency.

6.3 External Audit Highlights Memorandum and Management Letter

On 26 November 2015 the Audit and Finance Committees met jointly to consider the Financial Statements for 2014-15 and the External Auditor's Audit Highlights Memorandum and Management Letter. Audit Committee then discussed the audit aspects of the Statements, Finance Committee having already signed them off, and agreed to recommend the Statements to Council. Audit Committee also approved the Statement of Corporate Responsibility for inclusion in the University's Annual Report.

The Committee considered the External Audit Strategy Memorandum for the year ending 31 July 2016. The main areas of risk were identified as fraud from revenue recognition and management override of controls. The Committee was content with the overall strategy.

On 23 November 2016 the Committee received the External Audit Highlights Memorandum and Management Letter relating to 2015-16, which stated that the audit was now substantially complete and KPMG anticipated being able to report in their opinion that the financial statements:

- Give a true and fair view of the state of the affairs of the Group and University as at 31 July 2016 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

7. Other Activities

7.1 Evaluation

At the start of the 2015-16 session Audit Committee undertook an evaluation of its effectiveness through a self-assessment questionnaire based on the example in the CUC Handbook and also informed by examples provided previously by PwC and KPMG. This was made available to lay members, regular attendees from senior management and the internal & external auditors, and was followed by subsequent discussion by the Committee. A significant majority of responses were in the positive range and where necessary actions were agreed to enhance the function of the Committee and discharge of its responsibilities; including the provision of additional briefing and general awareness-raising material and information about specific areas, for example academic governance assurance and the Prevent duty that are expected to be introduced from 2016-17; and greater use of benchmarking institutional performance against other universities.

At the start of the 2016-17 session the University received the report of the Council effectiveness review that was undertaken at the end of 2015-16 and we are pleased to note that only two minor recommendations were raised in relation to Audit Committee.

7.2 Impact

In respect of its own performance the Committee considers that it has directed the internal audit function towards areas relevant to the risks facing the University. It has constructively challenged senior management and the internal audit function and has welcomed the level of cooperation and support received. Responses to audit recommendations are generally positive and timely in terms of both strict compliance matters and business enhancement – the added value that the Committee aims to deliver in discharging its responsibilities.

7.3 External Audit

In March the Committee received a report from the Finance Department on progress made against recommendations arising from the External Auditors' audit highlights memorandum. It was noted that good progress was being made in a number of areas. In particular, work is ongoing to continue to improve the performance of the subsidiary CTI Ltd. The Committee continues to take an active interest in this area including the appointment of members to the CTI board and detailed discussion with the company's representative and University management following the Subsidiary Companies internal audit review during 2015-16.

7.4 Corporate Risk

The Committee has continued to review the University's Corporate Risk Register at regular intervals. Eight of the audit reports performed in this academic year required testing of risk management issues, one of which, Ethical Governance, received a high risk classification and included three high risk findings which the Committee discussed in detail with management in October and November 2016. In 2015-16 the Committee also received a report from the University's Animal Welfare and Ethical Review Body to strengthen reporting and assurances in this area, which will also be the subject of a specific internal audit review in 2016-17.

7.5 Briefings

Throughout the year the Committee has received regular briefings and updates on the developments in the sector and their implications, including through the Vice-Chancellor's periodic reports to Council being made available to Members, in particular the implications of the Higher Education and Research Bill and the EU Referendum and the University's response.

8. Audit Committee Opinions

8.1 Overview

The Committee is required to offer its opinion on the adequacy and effectiveness of the University's systems for risk management, control and governance, on economy, efficiency and effectiveness (value for money) and on the management and quality assurance of data submitted to HESA, HEFCE and SLC on the basis of all the information that has been placed before it, including management responses to audit reports. On this basis the Committee has considered what opinions it is able to offer Council. We are satisfied that the internal audit work carried out by PwC meets the required standards and provides an appropriate basis for the Committee's own assurances to Council.

8.2 Risk Management, control and governance

The University's internal audit strategy continues to be based on risk assessment, drawing on the University's Corporate Risk Register. In 2015-16 the Committee's discussions about the Corporate Risk Register led to a Council workshop on risk management, which is expected to contribute to future iterations of the register in 2016/17. The Committee notes the opinion of the internal auditor, PwC, that, based on the work PwC has completed, except for the areas described in paragraph 8 above, the University has adequate and effective arrangements in place to support the achievement of management's objectives over:

- Risk management, internal control and governance; and
- Economy, efficiency and effectiveness/Value for money processes.

The Audit Committee and Council continue to receive and consider regular reports on major corporate risks. The Committee has seen and accepts the statements on internal control and governance, and on public benefit, included in the Financial Statements for 2015-16.

The Committee is of the opinion that the University's arrangements for risk management and internal control and governance (subject to the matters described in section 2 of PwC's annual report, attached) are adequate (i.e. suitably designed) and effective (i.e. the controls are operating as designed).

8.3 Economy, Efficiency and Effectiveness (Value for Money)

The Audit Committee exercises a monitoring role in relation to value for money, to ensure the University maintains adequate and effective arrangements. The Internal Auditors take account of value for money issues as part of their routine system-based auditing, with any relevant issues being examined and reported. Internal audit reports explicitly address, and report on, VfM. In the 2015-16 session one audit specifically targeted VfM in the area of purchasing, while other reviews were designed to include VfM themes within the audit objectives, such as departmental financial health checks and subsidiary companies (CTI Ltd).

The University's Financial Operating Strategy identifies the adoption of a VfM Strategy as a financial objective for the University, and in 2010-11 the University adopted a Value for Money Strategy. This strategy contains 7 VfM objectives and a series of actions identified as a mechanism for achieving these objectives. In October 2016 the Committee received an annual report on VfM activities during 2015-16 (attached as an Appendix to this report as part of the compulsory element of the annual accountability return to HEFCE), which was circulated to members of Finance Committee and Council for information. The reporting on VfM also complements the reporting on Procurement activity and savings provided to both Audit Committee and Finance Committee. The Committee again welcomed the reports as a positive piece of work which facilitate continuous improvements in delivering value for money in all areas of the University. In 2015-16 the Committee has sought to contribute directly to this area through the introduction of a VfM award, which was publicised on the University's staff web pages. The VfM report forms a separate component of the University's annual assurance return to HEFCE.

In 2015-16 the twice yearly reports on procurement, included an update on progress made towards achieving the objectives set in the Procurement Strategy and a summary of planned activity for 2016/17, including contract management, reviewing the supplier catalogue, and sustainable procurement.

The Committee also now receives the University's annual commercial report, which is reviewed in detail by the Finance Committee.

The Committee is of the opinion that the University's arrangements for economy, efficiency and effectiveness (VfM) are adequate (i.e. suitably designed) and effective (i.e. the controls are operating as designed).

8.4 Management and quality assurance of data

The Committee is also responsible for offering its opinion on the management and quality assurance of data submitted to HEFCE, HESA, SLC and other funding bodies by the University. The Committee has considered this carefully. The Committee notes that TRAC and TRAC (Teaching) Returns have been prepared in accordance with the principles of the Transparency Approach to Costing and has again received an annual report from the Data Assurance Group, providing high level oversight of the University's data assurance processes and its response to the changing data landscape. In January 2016 the Committee received an internal audit report about the quality of data returned to SLC, which received a low risk rating.

During the year, the internal auditors carried out four reviews (including the two follow-up reviews) relating specifically to data integrity, regarding non—standard research contracts and Student Loans Company data. Both of these reviews received a low risk classification but the Committee has noted the medium level findings in the advisory data governance

review regarding the need to document and more clearly define different data governance roles in the institution and the lack of wider formal governance structure to escalate process issues.

The Committee is of the opinion that the University's arrangements for the management and quality assurance of data is adequate (i.e. suitably designed) and effective (i.e. the controls are operating as designed).

November 2016

*Internal Audit
Annual Report
2015/16
Final Report*

University of Sheffield

November 2016

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Distribution List

For action:	Members of University Executive Board and Professional Services Executive
For information	Chair and Members of the Audit Committee

This document has been prepared only for University of Sheffield and solely for the purpose and on the terms agreed with University of Sheffield under our engagement letter.

1. Executive summary

Introduction

This report outlines the internal audit work we have carried out for the year ended 31 July 2016.

The Memorandum of Assurance and Accountability (“MAA”, HEFCE 2014/12)¹ between the Higher Education Funding Council for England (HEFCE) and institutions requires that the Head of Internal Audit provides a written report and annual internal audit opinion to the Audit Committee. As such, the purpose of this report is to present our view on the adequacy and effectiveness of:

- Governance, risk management and control; and
- Economy, efficiency and effectiveness (value for money) arrangements.

This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the University.

The Audit Committee agreed to a level of internal audit input which was fully delivered. Whilst this report is a key element of the framework designed to inform the Statement of Corporate Governance, there are also a number of other important sources to which the Audit Committee should look to gain assurance. This report does not override the Audit Committee’s responsibility for forming their own view on governance, risk management, control and value for money arrangements.

Head of Internal Audit Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control, and economy, efficiency and effectiveness arrangements (value for money). To assist the Audit Committee in understanding how our work corresponds to their reporting responsibilities, we have mapped our work against these areas in Appendix 4.

In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Opinion

Our opinion is as follows:

Satisfactory	Generally satisfactory with some improvements required	Major improvement required	Unsatisfactory
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Governance, risk management and control, and value for money arrangements in relation to business critical areas is generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management, control and value for money arrangements which potentially put the achievement of objectives at risk.

Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control value for money arrangements. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

¹ From 1 August 2016 HEFCE’s updated memorandum of assurance and accountability (HEFCE 2016/12) will apply. The opinion requirements of internal audit remain unchanged.

Basis of opinion

Our opinion is based on:

- All reviews undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted by management and the resulting risks.
- The effects of any significant changes in the University's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the University's audit needs have been covered to date.
- Any reliance that is being placed upon third party assurances.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

The key factors that contributed to our opinion are summarised as follows:

- Medium risk rated weaknesses were identified in our individual assignments that are *not significant in aggregate* to the system of internal control;
- High risk rated weaknesses were identified in the CTI subsidiary and ethical governance reviews that are *isolated* to those processes;
- Performance of the University in following-up previous internal audit recommendations; and
- None of the individual assignment reports have an overall classification of critical risk.

We provide a summary of the key findings which support our opinion in section two of this report, with further detail in sections three and four.

As outlined further at section three of this report, the general increase in recommendations is due to management directing us to areas of known risk, for example CTI, as well as our shift in emphasis from testing compliance to the effectiveness of processes.

Acknowledgement

We would like to take this opportunity to thank University of Sheffield management and staff, for their co-operation and assistance provided during the year.

2. Summary of findings

Our annual internal audit report is timed to inform the institution’s Statement of Corporate Governance. We completed 18 internal audit reviews. This resulted in the identification of three high, five medium and seven low risk ratings to improve weaknesses in the design of controls and / or operating effectiveness.

There were also two follow-up reviews and one advisory-natured assignment (data governance) where we did not issue overall risk ratings due to the nature of the work.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below.

<i>Description</i>	<i>Detail</i>
<p>Internal Control Issues for inclusion in the Statement of Corporate Governance</p>	<p>During the course of our work we report any significant weaknesses that we consider should be reported in your Statement of Corporate Governance.</p> <p>No issues were identified in our view that would require inclusion in your Statement of Corporate Governance. We highlight the higher risk areas from our programme of work separately below.</p>
<p>High risk issues</p> <p>A summary of the high risk recommendations has been detailed opposite.</p>	<p>Ethical Governance</p> <p>This report overall received a high risk report rating, including three high risk findings which in summary relate to:</p> <ol style="list-style-type: none"> 1) Ethical Framework Awareness & ownership: Ownership of the ethical framework and responsibility for monitoring compliance was unclear. We also made observations around low levels of awareness and training across the University of the framework. 2) Due diligence checks on donations: 8 out of 10 donations sampled had insufficient checks and approval documentation, and we noted from discussion with management that a high proportion of due diligence checks are carried out retrospectively because of late notification to the relevant team. 3) Due diligence on strategic partnerships & business relationships: there is no systematic process for ensuring that the University has considered areas of reputational risk or performed reputational due diligence before entering into a partnership or third party agreement. <p>Subsidiaries – Castings Technology International Ltd (“CTI”)</p> <p>This report overall received a high risk report rating, including three high risk findings which in summary relate to:</p> <ol style="list-style-type: none"> 1) Financial Responsibility: There was inappropriate segregation of duties within the finance system, adequate documentation was not obtained for starters and the operational workflow relating to leavers meant that access to user admin accounts was not immediately revoked upon departure. 2) Purchasing: Three different processes were in place for raising purchase orders which lacked automation due to system limitations. Goods Delivery Notes were not retained as supporting documentation in seven out of the 25 purchases tested. Also in three out of the 25 tested the orders lacked the appropriate approval signatures. 3) Cash Receipting: There are weak internal controls around the granting of credit terms to customers and there was no formal debt collection policy. The method for determining the ageing of outstanding debt was manual due to system limitations. <p>HR – Staff Performance Management and Appraisals</p> <p>Whilst there were no individually high risk issues in this report, the weaknesses we identified in aggregate were high risk to that particular process</p>
<p>Other weaknesses</p> <p>Other weaknesses were identified within the University’s governance, risk</p>	<p>We have raised a total of 44 medium risk recommendations during 2015/16 as outlined in section three of this report. These include the following findings amongst others, as examples of some of the main issues:</p> <ul style="list-style-type: none"> IT General Controls and Disaster Recovery - Alignment between Business Continuity and IT: our review identified that there needs to better alignment between CiCS and the wider business continuity management process.

<p>management and control processes. A summary of the main medium risk reviews and individually medium risk recommendations has been detailed opposite.</p>	<p>Currently there are gaps in expectation in what the business expects and what recovery services CiCS can provide.</p> <ul style="list-style-type: none"> • Risk Management - Engagement with the process and risk identification - Engagement in the risk process at a Head of Department and manager level varies by individual but is generally low, with a limited understanding of what is required and why. The risks recorded on risk registers need to reflect those things which Faculties and Departments can influence. • Staff Performance and Appraisals – ‘SMART’ staff objectives - Of the 19 employees selected for testing, only 2 were felt to have personal objectives that met the SMART criteria. • Staff Performance and Appraisals – Incomplete or missing staff appraisal forms – From our sample of 40 staff tested to ensure they had annual performance appraisal forms completed, two were not applicable as they related to new employees. Of the remaining 38 only 19 forms (50%) were available for review. Of these 19, 11 were incomplete. • Data Governance - University-wide data governance structures – There is a lack of documentation and definition of the different data governance roles required, with different understandings of who the system and data owners are. • Performance monitoring (Department for Lifelong Learning): There are no departmental specific KPIs in place for the DLL to monitor performance, although there is evidence that some monitoring occurs around student numbers and student module evaluations. • Finance continuous audit (payroll) - We identified issues in relation to controls around payroll for new starters with issues in relation to missing documentation or unsigned employment contracts, as well as weaknesses around the controls for administering casual staff payments. • CTI Ltd – We raised a number of recommendations amongst others in relation to varied procurement processes operating, missing rental contract between CTI and the University, instances of expenditure being approved by a non-authorised signatory, and an absence of timetable for budget setting and monitoring. • Ethical governance – Medium risk observations included amongst others an absence of assurance or reporting on compliance, gaps in the policies around donations, inconsistencies in the reporting around gifts and hospitality, absence of ongoing ethical monitoring arrangements for research contracts with third parties, and an absence of regular declarations around conflicts of interest from staff.
<p>Follow up During the year we have undertaken follow up work on previously agreed actions.</p>	<p>We have undertaken two follow-up reviews reported in February and September 2016. Our approach has been to assess the progress made by the University with regards the implementation of recommendations which have been assessed as fully or partially implemented by management, intended to validate management’s own self-assessment. In summary, across the two phases of follow-up work, we tested a sample of 88 recommendations, and in only one instance our assessment of progress differed from that of the University. This related to the Universities UK Housing Code of Practice review which we have assessed to be not implemented, but was assessed as fully implemented by management. A summary of the University’s self-assessment and our validation of that assessment can be found at section four of this report.</p>
<p>Good practice We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<ul style="list-style-type: none"> • The underlying risk management framework is well-designed, fit for purpose and, facilitates good practices. • There are detailed procedure notes in place for SLC returns and there is resilience built in to the team. • There is a clear process and guidance in place to distinguish between a standard and non-standard contracts, with annual workshops held to support academics. • There is a clear and documented timetable for the budget setting process, which faculties are well aware off and work towards. There is also a clear process in place for budget monitoring at the University level, Faculty level and Departmental level. • We also reported overall low risk report ratings for Non-Standard Research Contracts, SLC data quality, Departmental health checks, Finance – continuous auditing, Department for Lifelong Learning (“DLL”), Purchasing Value for Money, and Finance – budget setting and financial planning

3. Internal Audit work conducted

Introduction

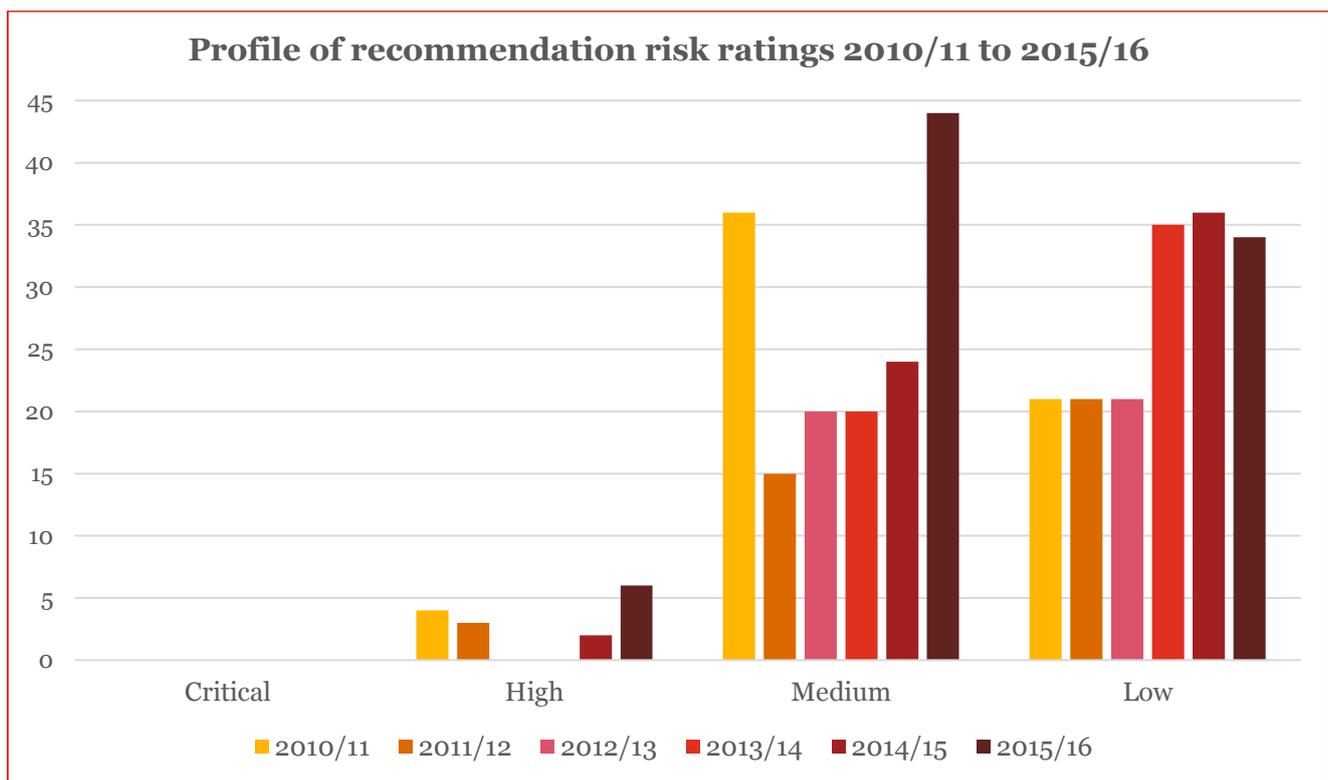
The table below sets out the results of our internal audit work and implications for next year's plan. We also include a comparison between planned internal audit activity and actual activity.

Results of individual assignments

Review	Report classification	Total number of findings	Number of findings				
			Critical	High	Medium	Low	Advisory
RIS - Non-Standard Research Contracts	Low	3	-	-	1	2	-
Data Quality – SLC data	Low	2	-	-	-	2	-
Residences – UUK Compliance Review	Medium	5	-	-	2	3	-
IT General Controls and Disaster Recovery	Medium	5	-	-	3	2	-
Departmental health checks	Low	3	-	-	-	2	1
Risk Management	Medium	5	-	-	3	2	-
HR – Staff Performance Management and Appraisals	High	7	-	-	6	-	1
Subsidiaries - CTI	High	15	-	3	9	3	-
Follow-Up Phase 1	N/A	-	-	-	-	-	-
Finance – continuous auditing (phase 1)	Low	5	-	-	-	5	-
Data Governance	Advisory	5	-	-	3	2	-
Department for Lifelong Learning	Low	5	-	-	1	2	2
Purchasing Value for Money	Low	2	-	-	2	-	-
Research Data Governance	Medium	5	-	-	2	2	1
Finance – budget setting and financial planning	Low	2	-	-	-	1	1
Follow-Up Phase 2	N/A	-	-	-	-	-	-
Finance – continuous auditing (phase 2)	Medium	9	-	-	3	5	1
Ethical Governance	High	14	-	3	9	1	1
Total		92	0	6	44	34	8

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings					
		2015/16	2014/15	2013/14	2012/13	2011/12	2010/11
Critical	↔	0	0	0	0	0	0
High	↑	6	2	0	0	3	4
Medium	↑	44	24	20	20	15	36
Low	↓	34	36	35	21	21	21
Total	↑	84	62	55	41	39	61
No. of reviews		18	19	19	17	16	17



As the above analysis highlights, the number of recommendations has increased significantly from 2014/15 to 2015/16. This is due to a number of factors:

- 1) A general shift in our emphasis of testing from compliance to the effectiveness of processes and controls, the risk management review being a good example of this;
- 2) Management directing us to known issues, for example CTI Ltd, as well as the plan including an inherently challenging subject of ethical governance. These two reviews alone resulted in 29 recommendations; and
- 3) Our plan included a number of areas which identified a higher than usual number of areas for improvement, for example HR Staff Performance Management and Appraisals.

4. Follow up work conducted

Introduction

In order for the University to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit plan, we followed up a sample of recommendations made in prior years to ascertain whether action had been taken.

The table below summarises the results of management’s own tracker of previous internal audit recommendations as at 31 May 2016.

Relating to year	Total	Fully implemented		Partially / not implemented - not yet due		Partially / not implemented - past implementation due date	
		No.	%	No.	%	No.	%
2012/13	46	38	26%	3	6%	5	16%
2013/14	56	45	31%	8	17%	3	9%
2014/15	61	38	26%	6	13%	17	53%
2015/16	64	26	18%	31	65%	7	22%
Total	227	147		48		32	
		65%		21%		14%	

Management’s own analysis shows that as at 31 May 2016, 86% of recommendations had either been fully implemented or were not due, with 14% being due for implementation and not yet fully implemented.

Results of follow up work

A summary of the results from our two follow-up reviews is outlined below:

Recommendation Status	Self-Assessment	Audit Status
A – Fully Implemented	77	76 *
B – Partially implemented	10	10
C – Not implemented	-	1
D - No longer relevant/ Not accepted	1	1
E – Not validated	-	-
Total	88	88

Summary

In line with our 2015/16 internal audit plan, we have undertaken the two bi-annual reviews to assess the extent of progress made by University staff with regards to the implementation of recommendations which have been previously raised.

The University Financial Accountant has reviewed the responses from staff and information provided and assessed the status of the findings. Following this review, we have tested a sample of 88 recommendations which were due and self-assessed as fully or partially implemented in the period to verify the University’s assessment.

* In only one instance our assessment of progress differed from that of the University. This related to the Universities UK Housing Code of Practice review, and the recommendation around ‘Fire Safety Evacuation Process’ at Allen Court (medium risk) which had not been implemented at the time of our follow-up work.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to University of Sheffield is for the 2015/16 financial year. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

<i>Type of opinion</i>	<i>Indication of when this type of opinion may be given</i>
Satisfactory	<ul style="list-style-type: none"> • A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> ○ Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or ○ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Findings rating</i>	<i>Points</i>
<i>Critical</i>	40 points per finding
<i>High</i>	10 points per finding
<i>Medium</i>	3 points per finding
<i>Low</i>	1 point per finding

<i>Report classification</i>		<i>Points</i>
	Critical risk	40 points and over
	High risk	16– 39 points
	Medium risk	7– 15 points
	Low risk	6 points or less

Individual finding ratings

<i>Finding rating</i>	<i>Assessment rationale</i>
Critical	A finding that could have a: <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; <i>or</i> • Critical impact on the reputation or brand of the University which could threaten its future viability.
High	A finding that could have a: <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; <i>or</i> • Significant impact on the reputation or brand of the University.
Medium	A finding that could have a: <ul style="list-style-type: none"> • Moderate impact on operational performance or • Moderate monetary or financial statement impact or • Moderate breach in laws and regulations resulting in fines and consequences or • Moderate impact on the reputation or brand of the University
Low	A finding that could have a: <ul style="list-style-type: none"> • Minor impact on the University's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the University.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 4: Mapping of internal audit work

Reporting responsibilities

The table below maps our internal audit work against the Audit Committee’s reporting responsibilities.

<i>Audit Unit</i>	<i>Governance</i>	<i>Risk Management</i>	<i>Control</i>	<i>Value for money</i>	<i>Data Quality</i>
RIS - Non-Standard Research Contracts		✓	✓	✓	✓
Data Quality – SLC data	✓				✓
Residences – UUK Compliance Review			✓		
IT General Controls and Disaster Recovery	✓	✓	✓		
Departmental health checks			✓	✓	
Risk Management		✓			
HR – Staff Performance Management and Appraisals			✓		
Subsidiaries - CTI	✓		✓	✓	
Follow-Up Phase 1	✓	✓	✓	✓	✓
Finance – continuous auditing (phase 1)			✓	✓	
Data Governance	✓		✓		
DLL	✓	✓	✓		
Purchasing Value for Money			✓	✓	
Research Data Governance	✓		✓		
Finance – budget setting and financial planning			✓	✓	
Follow-Up Phase 2	✓	✓	✓	✓	✓
Finance – continuous auditing (phase 2)			✓	✓	
Ethical Governance	✓	✓	✓		
RIS - Non-Standard Research Contracts	✓	✓	✓		

Data submission

It is of particular note that the Audit Committee’s Annual Report must include an opinion on the adequacy and effectiveness of arrangements for the management and quality assurance of data submissions to the Higher Education Statistics Agency, HEFCE and other funding bodies. To assist the Audit Committee prepare its Annual Report, we have outlined above where our work assessed the arrangements for the management and quality assurance of data submissions (see the table on this page). We provide no conclusions or opinion on data quality.



In the event that, pursuant to a request which University of Sheffield has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. University of Sheffield agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, University of Sheffield discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for University of Sheffield and solely for the purpose and on the terms agreed with University of Sheffield in our engagement letter. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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The
University
Of
Sheffield.

Finance and Commercial.

Annual Report on Value for Money

Audit Committee

17 October 2016

FC/16/43

Robert Hebblethwaite
Assistant Director of Finance (Financial Services)
4 October 2016

APPENDIX 2

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Appendix 2	Table of Qualitative Measures (% satisfaction) for key Student Services areas
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1. **Background**

- 1.1. This report is the draft Annual Report provided by the Director of Finance to the University Council on the achievement of Value for Money (VFM) in the University in 2015/16.
- 1.2. The report is collated from evidence obtained from committees, faculties and departments and focuses on strategies, policies and actions that have contributed to achieving VFM. It is complementary to the regular reporting on Procurement which continues to be made separately.
- 1.3. The Audit Code of Practice places a responsibility on the Audit Committee to report to the University Council on the adequacy and effectiveness of arrangements for promoting VFM in the University. In turn the University Council has a responsibility to HEFCE to ensure that VFM is achieved in the use of public funds and uses the assurance provided by Audit Committee to satisfy itself that this is being achieved. Along with other evidence that it obtains the Audit Committee may wish to use this report as the basis for its conclusions on the adequacy and effectiveness of arrangements for promoting VFM.
- 1.4. The report is provided to Audit Committee for information purposes and to help inform Audit Committee's opinion on the achievement of VFM in the University. The report is also provided to Finance Committee and Council for information.

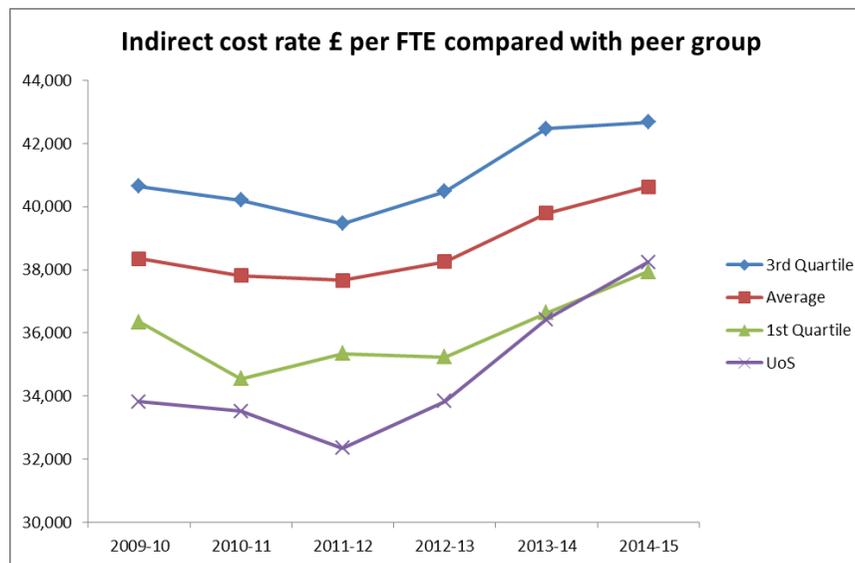
2. **External environment in relation to VFM**

- 2.1. There is no diminution in the requirement for Universities to focus on VFM. As well as it being an internal imperative, the external environment reminds us of the need for the achievement of VFM to be part of our continuous improvement from our Strategic planning through to our day to day operations.
- 2.2. As well as the additional context/background reading on the topic of VFM that was contained in the Universities UK report "Efficiency, effectiveness and value for money" was published in February 2015, HEFCE have issued a [Circular Letter on 17 August 2016](#) on the topic of current and future VFM Reporting. HEFCE state that "there is an increasing expectation for the sector to provide more evidence to demonstrate how value for money in the higher education sector is being achieved." Although HEFCE are content for HEIs to produce their annual VFM reports for 2016 in a format of their choosing, Annex A to the Circular Letter shows that, for 2017 they wish to be more prescriptive about the expected content. They have also suggested which existing published datasets may be used to secure evidence of the achievement of VFM as well as allowing HEIs to continue to gather their own in-house evidence. Further analysis of HEFCE's recommendations will be undertaken.
- 2.3. The external funding environment also continues to place constraints on the HE funding environment resulting in the need for HEIs to grow efficiently and/or manage expenditure effectively in order to remain financially sustainable.

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- 2.4. However, the longer term financial challenges remain as continued reductions in HEFCE funding, the consequences of BREXIT, cost pressures in relation to pay and pensions and the impact of increasing levels of internally financed capital expenditure will all impact on margin. The University is focussing on reducing expenditure in the short term and a number of projects in relation to this are being overseen by the recently created Strategy Delivery Group.
- 2.5. In June 2015 HEFCE announced a reduction in grant funding, as a result of the government's measures to reduce public debt by £4.5bn in the 2015/16 fiscal year, including £450m attributable to BIS. The impact in 2015/16 on the University was a reduction in HEFCE Research income of £2.6m, as transitional funding was removed. Teaching grant income was marginally higher than had been expected (£0.4m) due to retrospective changes made by HEFCE relating to 2014/15 student numbers. The University's forecasts indicate that HEFCE grant income will remain fairly constant over the forecast period to 2019/20, therefore limiting this income stream as a source of funding to address cost pressures highlighted below.
- 2.6. The continuation of the cap on the Undergraduate Tuition fee at £9k per annum is of course an implied and very real efficiency saving. Although there now exists the potential for the fee to be uplifted in accordance with the TEF, with pressures on our Shared costs arising from continued growth in the University's activities, including additional student support and expansion of the estate, coupled with inflationary and cost base pressure on staff costs arising from both National Insurance and Pension scheme employer contributions, the delivery of VFM is an essential component of ensuring that we continue to operate in a financially sustainable manner. Student fees now represent approximately 44% of the University's total income in 2015/16. Fees from Home and EU undergraduate students represent £126m of this income stream (43% of total Student Fees) and are capped at the £9k fee level until September 2017 at the earliest.
- 2.7. The Research Councils use the indirect cost rates associated with research activity as a measure of efficiency. If the indirect cost rate is low; the efficiency is assumed to be high. Between 2011 and 2016 the Research Councils applied an approach known as the "Wakeham savings". This incentivised universities to restrict growth in indirect costs by deducting a varying proportion from the indirect cost payments. For example, for universities with an indirect cost rate in the lowest quartile, compared with all other universities, and an annual reduction in the rate, the savings deduction was 0%. Whereas, for universities with the highest indirect cost rates and increases in their rates, the savings deduction was 6%. The Research Councils ended the "Wakeham savings" scheme for grants awarded after 31 March 2016 and has not yet announced a replacement scheme. Over the period of the scheme, our required savings rate started at 0% and increased to 4.5%, as our indirect cost rates increased. In order to maintain the 0% savings rate, the required % reduction to our indirect cost rate was simply increased each year since the efficiency regime was introduced. So, as each year passed, the impact of inflation made it more difficult to achieve the decreases necessary to have the 0% required savings rate applied. Our performance compared with our peer group (research intensives) is illustrated in the chart below.

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Our indirect cost rates have increased at a faster rate than our peers, over the period, but are still close to the lower quartile.

3. **VFM Strategy**

- 3.1. In its 2015 Annual Report to Council, the Audit Committee gave its opinion on the University's arrangements for VFM as 'adequate'.
- 3.2. The University adopted a VFM Strategy in 2011. The Strategy document has been previously circulated with a copy being available on request. Alternatively, it is available to University staff from the Finance web pages [here](#). The Strategy identified 7 VFM objectives as follows:
1. To promote VFM as an underlying principle of governance, planning and decision making throughout the University by all university staff and not just those with financial responsibilities;
 2. To encourage the adoption of control mechanisms that ensure VFM is achieved;
 3. To discourage actions by individuals or failures of process that would work against the achievement of VFM;
 4. To identify ways in which VFM can be evidenced through use of performance indicators, benchmarks and qualitative evidence;
 5. To ensure that best practice is adopted where this will improve the University's operations and promote continuous improvement;
 6. To support a culture where failure to achieve VFM is challenged and addressed;
 7. To outline a mechanism for reporting on VFM that provides the University's Council and senior managers with assurance that VFM is being achieved.

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- 3.3. A series of actions was also identified as a mechanism for achieving these objectives. By its nature, VFM is a process of continuous improvement and therefore there is no single measure that objectively identifies whether VFM has been achieved across the University. As part of this Strategy for the last five years the Director of Finance has provided reports on progress in implementing the strategy. These have been considered by the Audit Committee, Finance Committee and Council.
- 3.4. In the 2015 VFM report we incorporated the following developments and these have been carried forward into the approach for this report:
- We have continued to request information from colleagues throughout the University to demonstrate that VFM is being actively managed across all areas of activity. However we asked respondents to focus their responses on their “top 2” actions or initiatives only with specific emphasis on their impact and sustainability.
 - The annual report should include more summary information on the University's over-arching and embedded strategies and activities that deliver VFM and where these link to institutional priorities. For example, the planning, forecasting and budget setting process, procurement strategies, space management, and actions relating to energy consumption.
 - One of the tenets of VFM is effectiveness and the reporting should consider output measures of institutional effectiveness on teaching, research and customer satisfaction where these can be determined.
 - The reporting will also consider income as well as expenditure, embracing actions being taken to maximise income.
 - Where savings are reported as being achieved through VFM initiatives, these could be reported in categories of cost savings, efficiency savings or income generation. This is to help give a feel for the approach being taken and areas being targeted and to give an indication of how savings are realised e.g. reducing activity, restructuring, review of purchasing arrangements.

4. **Reporting and data/evidence gathering**

- 4.1. The revised template questionnaire produced for use in 2015 has again been sent to secretaries of the main University committees, and lead representatives of Faculties and Professional Service departments asking for information on VFM achievements over the last academic year and views on how VFM could be improved in the future. In making this request, respondents were asked in particular to provide information on a “clean sheet” basis with no reference to material supplied for previous VFM reports.
- 4.2. As was the case last year, respondents provided a significant amount of information about the actions that had been taken in relation to VFM over the previous 12 months. The nature of the returns made by respondents was thoughtful and included a wide variety of actions that contribute to VFM. This suggests that the VFM reporting process is a useful reflective exercise.
- 4.3. Once again, less information about areas of perceived weakness was received. Also, although it is often difficult to provide quantitative measures to support improvements, for this year's report once again much more content on qualitative and quantitative measures has been provided as a direct result of specific questions being asked on this aspect.

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4.4. The responses received demonstrated a wide understanding among respondents of the varying nature of how VFM can be achieved and also the fact that it encompasses economy, efficiency and effectiveness. There was an awareness that VFM is not merely a synonym for cost saving.

5. **Outcomes from data and evidence gathering**

5.1. In order to obtain a coherent picture of VFM achievement across the University the individual points and evidence included in the responses from all respondents have been collated according to the template questions posed and are set out in the following pages. In addition to this the annual report from the Process Improvement Unit is shown in Appendix 3.

5.2. **Actions and Initiatives to deliver VFM**

The first question was designed to obtain a more focussed response in relation to VFM actions being undertaken. The aim was to get respondents to move away from a list of **all** actions being taken that could possibly result in VFM and instead focus on just those with the most impact and sustainability.

Question 1 – Please provide details only for the “top 2” actions or initiatives that you have been undertaking in the 2015/16 year, with the high ranking being derived from specific emphasis on their impact and sustainability.

5.3. Responses from the University Executive Board and Faculty Executive Boards provided the following common themes:-

- The sharper focus of our planning activities has created efficiencies by supporting effective decision-making and ensuring that the University's collective priorities guide the strategic investment of our resources.
- Driving improved Faculty and Departmental financial performance via the setting of challenging Income Targets and Expenditure budgets. Clear links in the budget setting/resource allocation process to the delivery of income in advance of the release of expenditure budget.
- Focussing any new investment in staff or physical resources to only those areas identified in Faculty or Departmental strategy.
- Reviews of course provision, modules and delivery methods including the development of new offerings that are either more attractive or better aligned with external funding body requirements.
- Revising departmental structures to provide greater clarity for external and internal stakeholders and to deliver more effective performance.
- Actions to ensure more efficient space utilisation.
- Focussed reviews of workload and staff performance against benchmarks and improvement plans.
- Reviews of administrative support functions with the aim of reducing duplication, providing consistency of service and reducing cost.
- Greater attention to the leadership and management skills required in order to deliver performance improvement and change.

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5.4. Responses from Professional Service Departments provided the following common themes:-

- Reviews of service operations, systems that support these and their effectiveness.
- Cost saving initiatives through more effective purchasing.
- Specific business process reviews and subsequent changes implemented aimed at increasing efficiency and effectiveness of operations.
- Focus on additional income generation from either existing sales of services or development of new areas of business activity.

5.5. A list of example responses is provided below:

Example Actions	Respondent
Leadership Development - Identified top leadership challenges and support for personal and collective development.	UEB
Working with HR colleagues focusing on improving performance of both academic and professional services staff.	Faculty MDH
Review of all business processes in relation to Fixed term staff contracts in SCHARR.	Faculty MDH
Review of Dept of Music to implement range of options designed to improve its financial sustainability.	Faculty Arts & Humanities
Implemented the technical future proofing programme to ensure high quality, VFM services across all Depts.	Faculty Engineering
Review of Research facilities with aim to improve VFM by increased financial transparency and improved decision making with regards to investment in, or divestment from, certain facilities.	Faculty Science
Review and changes to departmental professional and administrative support in SoMAS and Physics.	Faculty Science
Continued development and implementation across the Faculty of best practice in areas such as key academic and business processes, often in relation to Learning and Teaching.	Faculty Social Sciences
Establishment of the MA in Social Research replacing all departmentally based research training masters thus delivering significant benefits in consistency, economies of scale and compliance with ESRC training requirements.	Faculty Social Sciences
Leading a University project to develop corporate reporting. The solution chosen fits with IT strategy and offers VFM as it was part of a planned upgrade and will be delivered at minimal additional cost.	Strategy, Planning and Governance
Continuing with robust appraisal of business cases to ensure that the most effective projects are prioritised.	Estates Capital Sub Group (ECSG)
EU Recruitment Project - 1st phase objectives achieved and 9% increase in applications across UG and PG for 2016 entry.	Student Services

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Example Actions	Respondent
Service Process Improvement Programme - Recruitment, contract changes, Leavers and 8 x "mini projects. All are delivering time savings in business process, reduced re-working and higher quality outputs.	Human Resources
Implementation of the new accounting standard FRS102 with the bulk of the work being done in-house thus saving on Professional Advisor Fees and developing knowledge of our own staff though the transition phase.	Finance
Review of collections on a regional/European basis to optimise across a range of HEIs using Inter Library Loans. Minimises need for further storage space and gives staff/students access to a wider collection of physical items.	Library
Development and support for new Customer Relationship Management tool "Salesforce". Management by R&IS has saved duplication of effort in Faculties and helped reduce subscription costs of using a range of alternative providers	Research & Innovation Services (R&IS)
Centralisation of Mobile Phone Costs - Removing the need for internal recharging and re-procurement of the provider contract have realised both direct cost savings and efficiency savings in staff time managing the recharges.	Corporate Information & Computing Services (CiCS)
Use of fixed rate contracts for gas and electricity supplies that also allowed us to take full advantage of further falls in energy prices over the course of 2015/16	Estates & Facilities Management (EFM)
Implementation of on-line memberships for Sport Sheffield improving the quality of service and also reducing cash/card transactions at the centre reception desk.	Estates & Facilities Management (EFM)
Achievement of financial surplus position for the commercial operations of Accommodation & Commercial Services through ongoing improvements in service delivery and a focus on procurement opportunities.	Accommodation & Commercial Services (ACS)
Integrated approach to leadership through the combined role of Director of HR and Communications and a partnership arrangement with the Director of Strategic Projects ensuring a clear and strong alignment to organisational priorities.	Corporate Communications

5.6. Over-arching and Embedded Strategies.

The second question was in relation over-arching and embedded strategies and activities that deliver VFM and also link to institutional priorities. For example, the planning, forecasting and budget setting process, procurement strategies, space management, and actions relating to energy consumption.

Question 2 – Please give summary examples of the over- arching and embedded strategies or activities with which you are engaged and how they both deliver VFM and help achieve institutional and/or the specific priorities of your department or group.

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- 5.7. This is the second year that we have requested specific information about this type of overarching activity. An example of responses is provided below. Whilst the connection to wider priorities can be gleaned from these responses, there still remains a majority of content in the responses to this question that cover ordinary business operations rather than a clear link to things that aim to sustainably deliver VFM and achieve priorities.

Example of Over-Arching Strategy/Activity	Respondent
Coherence and connectivity between individual strategies with the overarching Strategic Plan has been improved, leading to increased focus and clarity of strategic purpose.	UEB
Use of the planning outcomes and actions document to help monitoring of progress against objectives.	UEB
Implementation of the over arching activity to use On-Line Expenses resulting in efficiencies for the finance hub team.	Faculty MDH
Financial forecast and budget setting focuses heavily on financial sustainability at departmental level.	Faculty Arts & Humanities
Better use of the existing estate remains a priority. Jessop West project to include new History staff, co locate SLC admin and create new space for Ling/Lab facility.	Faculty Arts & Humanities
Continued use of policy that income growth must come in advance of any release of additional budget - Faculty Resource Allocation Model.	Faculty Engineering
Focus and refinement of both workload planning for academics and measures to address perceived obstacles to effective use of time.	Faculty Engineering
Shared mechanical workshop space with Mechanical Eng - Heartspace Project. Space management savings and integration of equipment/shared services.	Faculty Science
Two Interconnected projects relating to improving PGT recruitment. Review and revise or offering in light of market analysis.	Faculty Social Sciences
Critical reflection on structures and staffing roles and their link to the delivery of departmental strategy.	Faculty Social Sciences
Use of dedicated, local, procurement specialist staff to manage spend and ensure regulatory compliance.	AMRC
Support to the annual tuition fee setting process ensuring wider market position is understood.	Strategy, Planning and Governance (SPG)
Provision of advice on the content and format of the University Estates Strategy.	ECSG
Contributed to overall University VFM via discussions around capital business cases, financial forecasts, suggestions relating to subsidiary companies and development of the Financial Operating Strategy.	Finance Committee
Contributed to the development of the "Public Responsibility" aspect of the University's Strategic Plan, which includes our commitment to using all resources sustainably.	Public Value Sub Group
University's People Strategy 2016-2021 is closely aligned to the University's Strategic plan and addresses both HR and organisational priorities.	Human Resources

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Example of Over-Arching Strategy/Activity	Respondent
Revised the Financial Operating Strategy ensuring that it reflects potential capital expenditure and future borrowings.	Finance
Progression towards use of scanning technologies in all areas where paper documents or receipts are currently held.	Finance
Active engagement with the Recruiting for the Future Programme. Attracting talent needed to deliver the Strategic Plan.	Library
Our Procurement Strategy ensures VFM through use of Framework agreements and nationally negotiated site licences.	CiCS
Activity review of reported problem handling resulting in a new process that will save time for staff as well as providing an improved service.	CiCS
Continuation of the Procurement Strategy for EFM and further focus for the Space Management Team in working closely with Faculties to provide a detailed understanding of their individual estates.	EFM
Increasing staff and student engagement with Green Impact Eg "Student Switch Off" in residential buildings which supports reductions to energy usage.	ACS

5.8. Qualitative Measures

The third question was in relation to qualitative measures for the achievement of VFM. These qualitative measures could be comparisons to sector benchmarks or accepted best practice. Appendix 2 provides a separate illustration of how Student Services use the results of the National Student Survey to inform their qualitative measures of VFM.

Question 3 – Please provide examples of output measures that you use for the effectiveness of teaching, research, customer satisfaction and any other means of assessment of your activities.

APPENDIX 2

A list of example responses is provided below:

Example Qualitative Output Measure	Respondent
Institutional Key Performance Indicators - A new set of institutional PIs has been developed. These performance measures will be used annually to report on progress towards to the ambitions set out in the Strategic Plan. The PIs are qualitative and narrative as well as quantitative.	UEB
Use of indicators and benchmarking data in the planning insight pack.	All Faculties
NSS and Postgraduate Survey Results	Faculty MDH
Staff Survey responses and response rates	Faculty MDH
Strategic Plan KPIs and use of feedback on teaching staff through regular module evaluation surveys	Faculty Engineering
Use of "Qualtrics" in Psychology Dept to evaluate overall teaching effectiveness	Faculty Science
Annual benchmarking of Professional staff fte against Russell Group peers.	Faculty Social Sciences
Annual service evaluation and feedback exercise and benchmarking against other Russell Group Planning Support staff	SPG
Qualitative measurement of VFM for estates performance using HEFCE Estates Management system statistics	ECSG
Sunday Times 100 Best Companies to Work For plus ongoing feedback and evaluation of programmes such as Sheffield Leader, The Deal and Recognition Awards and Juice.	Human Resources
Procurement Maturity exercise undertaken to benchmark our activities against other HEIs who submitted data.	Finance
User feedback obtained in relation to our revised Scholarships Internal Funding process and also our online examination re-sit fee payment pathway.	Finance
Benchmarking of performance using SCONUL Annual Library Statistics, Times Higher NSS, RLUK.	Library
Established new process for obtaining management information on the utilisation of study space in the Graduate Research Centre. Removed a previous process that was time consuming, onerous and resulted in printed material.	R&IS
Continued use of the "Techqual survey" along with results from the student barometer, NSS and regular feedback and service review mechanisms.	CiCS
Use of KPIs in contractor agreements to measure performance and reliability/quality of service or equipment functioning.	EFM
New transparent capital project governance arrangements deliver qualitative improvements over while project life cycle.	EFM
The Guest Experience Management system measures customer service on a monthly basis. Average satisfaction score of 86% achieved. University Accommodation voted Number 1 by students in the Times Higher Student Experience Survey.	ACS

APPENDIX 2

5.9. Quantitative Measures

The fourth question was in relation to quantitative measures for the achievement of VFM. Where savings have been achieved in 2015/16 through VFM initiatives, the top 3 of these initiatives were to be reported with the specific financial sums included in the categories of “Cost savings, “Efficiency savings” or “Income generation”.

HEFCE do routinely commission an analysis of the VFM reports submitted by HEIs (the latest summary produced in February 2016 covers the 2014/15 reports). Whilst the nature and content of reports vary by institution, savings tend to be attributed to one of three categories.

1. **Cost savings** – where the institution has reduced costs by reducing activity, such as discontinuing a particular course or closing down a department.
2. **Efficiency savings** – where the institution has delivered the same – or greater – activity with fewer resources, such as by streamlining processes or making better use of information technology.
3. **Income generation** – where the institution has offset the costs of an activity through charges or other income generation measures, such as by charging students for printing or by letting spare office space to external organisations.

Most savings reported are in the cost saving category (c.90%).

Question 4 – Where savings have been achieved in 2015/16 through VFM initiatives, the top 3 of these initiatives should be reported with the specific financial sums included in the categories of “Cost savings, “Efficiency savings” or “Income generation”. The top 3 ranking is to be derived from either the largest sums involved or the highest % impact in relation to the size of the budget or amount of additional income generated.

This is to help give a feel for the approach being taken and areas being targeted and to give an indication of how savings are realised e.g. reducing activity, restructuring, review of purchasing arrangements. If precise financial figures are not available, estimates should be included along with a brief explanation of how this has been derived.

- 5.10. Activities managed by Estates and Facilities Management and Procurement do routinely provide a rich source of opportunities to improve VFM and the detailed feedback from these two areas is outlined in Appendix 1 and as part of the Annual Procurement Report. In addition to the information in Appendix 1, please find below examples of quantitative measures of achieving VFM from other areas of the University.

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5.11.

Example Quantitative Measure of VFM achieved	Category	Respondent
Review of secretariat arrangements for UEB. - £6k staff cost saving.	Cost saving	UEB
Focus on performance management - reduced staff costs - £100k-£150k.	Cost saving	Faculty MDH
Fixed term staff contract business process efficiency saving - £50k-£60k in staff time.	Efficiency saving	Faculty MDH
Increase in numbers of Home and Overseas students in Department of Music - Accepts up from 37 in 2015 to projected 72 in 2016.	Income generation	Faculty of Arts & Humanities
Review and reorganised space usage at Buxton site - Reducing costs by £250k approx.	Cost saving	Faculty Engineering
Electro-mechanical improvements (AWEC/Annex upgrades) - Energy cost savings £44k approx.	Cost saving	Faculty Science
School of Law - Professional Service support review /restructure- Cost saving £101k.	Cost saving	Faculty Social Sciences
External Income funding opportunities are fully assessed for all capital project investments. Millions of pounds from Sheffield City Region, HEFCE UKRIF, ERDF ESIF, MRC and Alumni funding.	Income generation	ECSG
EU Recruitment Project - Improved market share - Additional student number = £300k income.	Income generation	Student Services
Enhanced services made available via the University Health Service - Additional income £200k approx.	Income generation	Student Services
Process improvement work - Approx 50hours pa of HR Assistant time saved.	Efficiency saving	Human Resources
Undertaking FRS102 transition in-house. Saving on Professional Advisor Fees quoted at £100k approx.	Cost saving	Finance
Promotion and facilitating wider University use of Purchasing Cards - Increased rebate received from Barclaycard - £22k.	Income generation	Finance
"Changing the Shape" Programme for optimised collection management - £65k approx.	Cost saving	Library
Reduction in external facilitator fees for PGR Skills by review of providers and their VFM - £13k.	Cost saving	R&IS
Centralisation of mobile phone contracts - direct contract cost saving £100-£150k.	Cost saving	CiCS
As above - staff time efficiency saving by removing recharges - using £50 per transaction pm = £750k.	Efficiency saving	CiCS
Improved control processes and collaboration on Residences Maintenance expenditure - £300k.	Cost saving	ACS
Year on year increase in Vacation period income - £126k.	Income generation	ACS
Reviewed process for creating bespoke websites and brought these in-house rather than using external agencies. - £56k	Cost saving	Corporate Communications

APPENDIX 2

5.12. Areas for improvement in VFM

The fifth and final question was in relation to areas for improvement of VFM. This question was open to responses being made about any area of the University, rather than just in the respondents Committee, Group, Faculty or Department.

Question 5 – Please provide details of any areas where you think that better VFM could be achieved in the University.

5.13. A list of example responses is provided below

Example areas for achieving better VFM	Respondent
Ongoing work to better link UEB business/agenda planning to agreed priorities.	UEB
Enhancements needed to reporting functionality for research project spend to reduce use of spreadsheets.	Faculty MDH
Simplification needed in EFM internal team boundaries needed. Better coordination and joining up of Campus services.	Faculty Arts & Humanities
Wider roll out of a University wide programmed solution to use of scanners for student attendance recording.	Faculty Science
Further and wider review of local/departmental phone contracts to ensure that new University cheaper tariffs are used.	Faculty Science
Reduce/remove institution wide programme complexity because of impact on quality of student experience and costs when compared to levels of income generated.	Faculty Social Sciences
Critical review should be undertaken of any internal charging by central service departments to ensure that the associated business process costs are proportionate to the sums being charged. Eg extra service re Octagon use.	Faculty of Social Sciences
Make best use of the data emerging from the HESA Professional Services Costs Benchmarking project.	SPG
Continued coordination of Public Value/Sustainability activity to prevent replication at Faculty/Departmental level.	Public Value Sub Group
Development of the student job shop to provide a recruitment agency service to Departments thus reducing Agency fees.	Student Services
A University wide Learning Management System would replace numerous sub systems across the University and enable effective management of learning and development across the institution.	Human Resources
More consistent collection and use of email address information from staff and casual workers on first appointment/engagement would reduce the need for hard copy letter communication thus saving time and cost.	Finance

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Example areas for achieving better VFM	Respondent
There are significant opportunities for more streamlined supplier relationships Eg Travel and Hotel costs	Library
Reducing or removing issues with Departments trying to run their own software/systems implementation projects this creating unplanned project management and development work.	CiCS
More use of standardised services Eg Managed Desktop	CiCS
Improve working with CiCS and Room Bookings to improve visibility and access to information about low space usage areas so that our Sales team can take opportunities to increase Conference income and improve the quality of services.	ACS
The "MarComms" forum shares communication best practice across the University. VFM could be a stronger focus within this group to drive further savings.	Corporate Communications

6. **Conclusion**

- 6.1. A large number of issues and actions have been identified by committees and managers that demonstrate activity that is taking place to improve VFM across the University. However, the volume of activity does not necessarily mean that the University has a poor VFM record but is more reflective of a culture that is concerned to recognise problems and improve.
- 6.2. The nature of the responses received in compiling this report shows that managers think about VFM in a wide context that relates to performance in achieving strategic objectives. Their view of VFM is not restricted to the idea of reducing expenditure although the current financial pressure under which the University will be operating for the next few years will undoubtedly sharpen this focus as expenditure budgets and income generation targets will both be challenging.
- 6.3. This report is provided to Audit Committee for information purposes and to help inform Audit Committee's opinion on the achievement of VFM in the University. The report is also provided to Finance Committee and Council for information.

Annual Report on Value for Money FC16/43 – Estates and Facilities Management and Procurement Team within Finance

Examples of Quantitative measures for the achievement of VFM

Name of activity/initiative	Type of saving	£	Other comments
Property Strategy Initiatives			
Purchase of New Spring House	Cost avoidance	1.46m	Avoidance of rental payment, dilapidations and obtaining the sinking fund back from the property against a purchase price of £2.2m.
Shepcote Lane, Threadneedle Site	Income generation	420k	Strategic investment purchase.
Sheffield Business Park	Cost Saving	14.9m	The saving is based on the land values purchased on the Advanced Manufacturing Park.
Velocity 2	Cost saving / Income Generation	1.1m	Rental income. Also cost saving on building a new facility for Sheffield International College. Potential to relocate a further department from rented accommodation with a saving of £350k per annum.
Bringing Maintenance Services in House			
Bringing maintenance services in house	Contractor cost savings	1.08m	Savings on contractor costs over and above additional staff costs.
Procurement Strategy Efficiencies			
Low voltage testing	Contractor cost savings	165k	The work was formally tendered having identified that the way in which it had previously been instructed lead to highly qualified electricians carrying out work which could be done by less qualified engineers.
Fume Cupboard PPM	Contractor cost savings	115k	The work was formally tendered having identified potential savings.
Capital Project Efficiencies			
New Social Sciences Building	Cost Saving	20m	Value Engineering.
LVV	Cost Saving	200k	Value Engineering.
AMRC2 Infrastructure	Cost Saving	500k	Value Engineering.
Energy Efficiencies			
Savings on non- residential utility costs compared to budget	Cost Saving	1m	Predominantly due to savings on electricity and gas costs compared to budget as a result of the move to new fixed rate contracts.
Cooling system replacement	Cost Saving	280k	Due to more efficient systems replacing end of life systems.
EFM Finance			
Shared Accommodation 2015/16 VAT and Rates refund related to prior year overpayments	Cost refund	1.2m	One off recovery following review of shared accommodation recharges.
Shared Accommodation Recurrent annual VAT and Rates savings	Recurrent Cost saving	400k	Annual estimated savings on shared accommodation recharges for these areas.

Name of activity/initiative	Type of saving	£	Other comments
Procurement Team in Finance			
Environmental Chamber	Price reduction/Value Added	912k	As a result of Tendering process.
1.5T MRI Scanner	Price reduction	571k	As a result of Tendering process.
Hybrid Mass Spectrometer	Price reduction	260k	As a result of Tendering process.
Stationery	Efficiency saving	64k	New delivery arrangements with supplier.

Annual Report on Value for Money FC16/43 - Student Services

Qualitative measures for the achievement of VFM

The key indicator used to assess satisfaction with student education is the National Student Survey. In the most recent set of results overall satisfaction for the University stands at 89% which equates to joint 3rd place in the Russell Group.

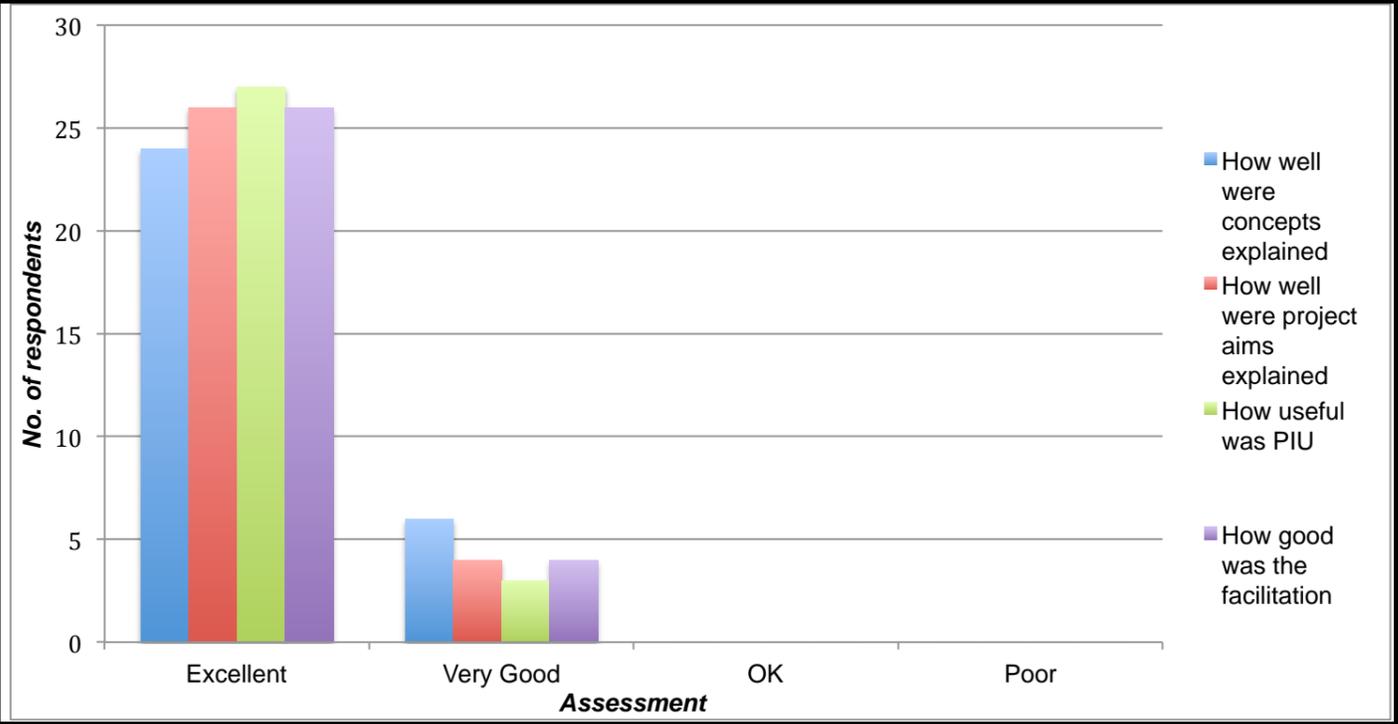
In addition we routinely review levels of satisfaction with key student service areas using the 'barometer' assessment (externally administered) which is used by hundreds of global HE institutions. The most recent set of scores (% satisfaction) are shown in the table below. One dimension of the assessment focusses specifically on international students, hence the separate column. In terms of benchmarking, we are in top position overall for the Student Services Information Desk and we have 1st in Russell Group rankings for enquirer-applicant turn-around time; counselling services; disabled student support and careers services.

Service	International barometer	Student barometer
SSiD	98	98
Offer-response time	87	93
Registry Services	91	93
Chaplaincy	90	92
Counselling Service	83	85
Disabled student support	n/a	92
University Health Service	91	92
English Language centre	91	n/a
Careers Service	97	94



STRATEGY

- To run process improvement projects and workshops
- To embed a 'lean' culture within the University



WORKSHOPS

- 14 workshops in process mapping, problem definition including HR Problem Definition, Alumni data mapping, Nursing Admissions process mapping, among others

TRAINING

- 49 attendees for awareness training
- 39 attendees for process mapping training
- 30 attendees for process improvement practitioner training
- 52 attendees for other training
- 134 attendees for bespoke awareness sessions
- 14 external training attendees (St Georges London)

ENGAGEMENT and EXTERNAL RECOGNITION

- Contribution to Strathclyde 'Evidencing Benefits'
- Presentation at Waterloo Uni, Canada.
- Presentation at York AUA
- Conference attendance
- Collaboration with Aberdeen and Strathclyde

BENEFITS

We have concentrated more on training in the earlier part of this year, and numbers attending have risen considerably. We believe this is resulting in a greater willingness to think about continuous improvement. Project work has produced benefits for academic staff (prospectus production and SCHARR fixed term contract management), and for service users (CiCS development work, One time vendor process). However perhaps the greatest improvements are still being seen by administrative staff.

CHALLENGES

- Involvement of middle/senior management is still limited. Process improvement training is seen as a personal development opportunity rather than critical to effective functioning of the University.
- PIU has had limited success in becoming involved in the University's management training schemes.
- We are starting to see improvements tailing off as time passes. This is because the culture of continuous improvement is not embedded in the organization.
- The diverse structures of the University, with associated differences in accepted custom and practice, stop possible improvements.
- Workshops continue to be seen as a 'quick fix'. While valuable, these do not have the same defined outputs as full projects and may therefore not be effective.

RESULTS

Project	Aim	Benefit
Prospectus production	Reduce amount of time spent preparing print prospectus	Decreased time spent on admin, increased time on creative process. Reduce no. of proofs
CiCS Development Work	Provide transparency of prioritisation and scheduling	Informed decision making for University on CiCS IT projects
One Time Vendor	Efficient process for paying PPI volunteers, Homestay providers	Better experience for PPI volunteers. Decreased time spent processing payments in Finance.
SCHARR Fixed term contracts	Decrease amount of time spent administering contracts in Scharr	Reduction in stress for Scharr Acad. Staff. Reduction in wasted work in HR.
Candidate Engagement	Reduce time taken to approve ATJ	Less risk of losing candidates
Staff Contract Issuing	Reduce time taken to issue contract to new staff	Successful candidate starts quicker.
Staff Contract Changes	Reduce complexity of changes to contracts	Clarity for staff changing roles/hours etc.
Global Opportunities and Exchanges	Reduce the number of systems and data processing for managing students on exchange programmes	Decreased time spent on admin Better application process for students