

## **ATHLONE INSTITUTE OF TECHNOLOGY**

### **Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas**

I have audited the financial statements on pages 5 to 20 under Section 16 of the Regional Technical Colleges Act 1992.

#### **Respective Responsibilities of the Institute and the Comptroller and Auditor General**

The accounting responsibilities of the Institute are set out in the Statement of Institute Responsibilities on page 3. It is my responsibility, based on my audit, to form an independent opinion on the financial statements presented to me by the Institute and to report on them.

#### **Basis of Audit Opinion**

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with auditing standards issued by the Auditing Practices Board and by reference to the special considerations in relation to management and operations which attach to bodies in receipt of substantial funding from the State.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Institute's circumstances, consistently applied and adequately disclosed.


I planned and performed my audit so as to obtain all the information and explanations that I considered necessary to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Emphasis of Matter**

In the Supplement to this Report, I draw attention to certain matters relating to the management of fundraising activities, the funding of certain research activities and expenditure on plans for a building project which did not proceed. The contents do not impact on my opinion.

#### **Opinion**

In my opinion, proper books of account have been kept by the Institute and the financial statements, which are in agreement with them, give a true and fair view of the state of affairs of the Institute at 31 August 2001 and of its income and expenditure and cash flow for the year then ended.



John Purcell

Comptroller and Auditor General

12 March 2004

## **Athlone Institute of Technology**

### **Supplement to Audit Report**

#### **Expenditure on Fundraising Efforts**

In February 1998, the Governing Body of the Institute set up a Foundation Development Fund to raise funds for the Institute. In May 1999, the Governing Body appointed a teacher on secondment from the Department of Education and Science as Promotions Officer with a brief to establish a Foundation and to raise funds for the Institute. The Promotions Officer's period of employment ceased in January 2001.

In the period February 1998 to January 2001 the Institute incurred the following costs in relation to its fundraising activity:

	€
Promotions Officer's salary	67,372
Fees	32,911
Travel costs	12,574
Promotional costs	10,684
Rent	4,194
Telephone	3,356
Miscellaneous	<u>1,750</u>
Total	<u>132,837</u>

As it appeared that, despite this outlay, no funds had been raised during the period, I sought the views of the Director of the Institute.

The Director informed me that in February 1998, the Institute's Governing Body had allocated €19,000 to begin research into the feasibility of the fundraising project. The legal issues involved in the establishment of a Foundation had been discussed with the Department of Education and Science in 1999 and through these contacts, the secondment of the teacher as Promotions Officer had been agreed.

As part of the fundraising activities, a promotional brochure had been produced which included a fundraising target of €28.9 million. The Promotions Officer had given a full account of his activities to the Governing Body at its meeting of 28 September 1999 and he had furnished a report for the Governing Body meeting of 12 December 2000.

The Director informed me that on his appointment in 2000 he had endeavoured, over a period of almost a year, to put measures in place to monitor, report and evaluate the Promotions Officer's role.

The Director also stated that he had striven since his appointment to set targets which would be met in the area of fundraising and he was concerned as to the ongoing costs with little evidence of financial returns.

It was the Director's view that differences in regard to the direction the role should take and the fact that no funds had been raised were factors in the Promotions Officer's decision to resign his post in January 2001.

#### **Centre for Biopolymer and Bio-molecular Research**

In November 1998, the Department of Education and Science established the Programme for Research in Third Level Institutions (PRTLII). The aim of the Programme was to put in place a public/private partnership financial framework to jointly fund research and development in third level education institutions. The Programme was administered by the Higher Education Authority (HEA).

In July 1999, the HEA awarded funding of €1,399,622 under Cycle 1 of the PRTL1 to the Institute in respect of a research project in polymer science of which €972,619 was for recurrent expenditure and €427,003 was for capital purposes. The total capital spend envisaged by the programme was €1,281,166. It was a condition of the HEA award that the Institute would fund the balance of the capital funding required, partly from private sources (€640,583) and partly through the use of the tax incentives provided by Section 843 of the Taxes Consolidation Act, 1997 (€213,580).

In response to the award of the research funding, the Institute established a Centre for Biopolymer and Bio-molecular Research (CBBR) within its School of Science to administer the research programme. The project involved the construction and equipping of research facilities and the employment of postgraduate students to carry out the research. The Institute intended that the research facilities would continue to be used for research and development purposes after the programme was completed.

Funding and expenditure (budgeted and actual) on the project was as follows:

<b>Funding – Capital</b>	<b>Budgeted €</b>	<b>Actual €</b>
Direct HEA Funding	427,003	427,003
S843 Tax Benefit	213,580	0
Non-Exchequer Funding	<u>640,583</u>	<u>0</u>
Total	<u>1,281,166</u>	<u>427,003</u>
<b>Expenditure – Capital</b>	<b>Budgeted €</b>	<b>Expenditure €</b>
Building & Fees	510,434	57,222
Capital Equipment	634,869	629,592
Furniture & Fittings	<u>135,862</u>	<u>0</u>
Total	<u>1,281,165</u>	<u>686,814</u>

<b>Recurrent</b>	<b>Pay</b>	<b>Non-pay</b>	<b>Equipment</b>	<b>Total</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Recurrent Funding Budgeted	477,149	306,407	189,063	972,619
Expenditure to 31 August 2002	401,300	204,673	189,064	795,037
HEA Grant received				770,421

In the event, the Institute did not obtain any non-Exchequer funding nor did it manage to achieve the Section 843 benefits originally envisaged.

In the light of this and the fact that the Institute had incurred capital expenditure of €686,814 and recurrent expenditure of €795,037 on the project to 31 August 2002, I asked the Director to comment on

- the steps taken to secure the non-Exchequer funding under Section 843 as required under the PRTLTI approval
- the reasons for continuing the project in the absence of such funding
- whether or not the research programme funded from the PRTLTI was completed within the terms of the original approval
- how it was possible (assuming this to be the case), to complete the research programme within the terms of the original approval, on a capital outlay of only 50% of that originally proposed.

The Director stated that this was the first time the Institute had succeeded in securing research funding for a major research project and it was only one of two Institutes to succeed in this respect.

He informed me that tenders were advertised requesting Expressions of Interest in Section 843 financing for the project. Only one Expression of Interest was received and after considering the offer, it was his view that the size of the financing package was so small that the benefits would be outweighed by the set-up costs and the only benefit would have been in the form of tax breaks for the bank that had made the offer. There would have been little or no overall benefit to the Institute and hence the cost to the State would have been greater than the gain. He added that by May 2002 the HEA had accepted that the level of benefit from Section 843 assumed by the funding approval was excessive.

Private funding amounting to €120,000 had since been received from various sources and funding of €421,539 had been provided by the Institute from the surplus on fees paid by overseas students, net of expenditure on student services. The issue of whether or not student fees should be used for such purposes is the subject of continuing discussions between representatives of the Institutes of Technology and the Department of Education and Science.

Such was the timescale for completing the research that it became obvious that the research would have to start ahead of the building being erected. Even if non-Exchequer funding had been available from the beginning, it would have taken at least two years to design, procure, receive planning permission and construct the building. On this basis, it was reasonable to begin the research ahead of the building being constructed. The fact that additional funding of €1.3m had been made available by the Department of Education and Science for construction of the building and subsequently withdrawn had had a detrimental effect on the Institute's ability to construct the research building in line with the plans being drawn up.

The research had been carried out since 1999. An extension of the time limit for completion of the project was given by the HEA up until 30 September 2003 and the research programme had now been virtually completed in accordance with the proposals submitted to the HEA.

The Institute had provided temporary accommodation from within its own resources to enable the research to continue in the period 1999 to date.

In light of the Director's view that the proposed project was too small to attract Section 843 funding and the fact that the Institute had previously indicated that by May 2002 the HEA had accepted that the level of benefit from Section 843 assumed by the funding approval was excessive, I also asked the Chief Executive of the HEA for his comments, particularly with regard to

- the circumstances in which the HEA continued to issue PRTLTI funding when it became evident that the Institute had failed to comply with the requirement to secure 50% capital funding for the research project from private sources
- whether the HEA accepted that projects must meet a minimum size to be viable as Section 843 projects and whether it had advised grantees accordingly
- whether the HEA had re-assessed the level of benefit which institutions can expect to derive from Section 843 and, if so, whether action had been taken to address any funding shortfall on approved projects.

The Chief Executive informed me that the Institute had maintained, in July 1999, that it had secured an irrevocable gift of €1.3 m from its fundraising activities towards the cost of the project. In the event, the Institute did not subsequently receive this funding.

In September 1999, it had also formally accepted the offer of funding under the programme and all of the conditions attached to the offer. The HEA had made capital payments of €427,000 to the Institute over the period April – December 2000 on foot of certified expenditure claims. In the period December 1999 to August 2002, funding in respect of recurrent expenditure of €770,421 was given to the Institute. It was a condition of the funding that, on completion of the expenditure programme, a full audited account would be provided to the HEA and, in addition, a final evaluation would be carried out on behalf of the HEA. If the expenditure is found to be less than originally projected, the under-spend will be returned to the HEA pro rata with the original Exchequer allocation. If expenditure is greater than the approved allocation, the Exchequer will make no additional funding available.

The Chief Executive confirmed that to achieve optimum value for money, capital projects funded on a 50% private/50% Exchequer basis would need to be of an appropriate scale to be viable under the Section 843 programme. There can be substantial legal, administrative and other costs associated with the application of Section 843. The direct financial benefit to be derived from the Section should be sufficient in order for the application of the Section to be worthwhile. No absolute minimum size had been prescribed and the matter was dealt with on a project-by-project basis.

With regard to re-assessment of the level of benefit which institutions can expect to derive from Section 843, the Chief Executive informed me that information on the level of benefit derived from the Section on PRTLTI Cycle 1 and Cycle 2 projects was obtained from participating institutions and analysed. The average benefit to the research institutions at this stage was of the order of 9% of the approved Section 843 qualifying expenditure. The HEA had supplied the result of the analysis to the Department of Education and Science as part of an overall submission requesting a level of funding which would maintain the agreed Exchequer proportion of the cost of the PRTLTI programme.

### **Design Fees**

The Institute's submission for PRTLTI funding proposed the construction of a research building of 722 sq m at a cost of approximately €1.3million. However, the HEA award only envisaged a building costing approximately €510,000. This reflected the fact that the HEA operated on the basis of a space norm of 20 sq m per researcher. Since the Institute was given funding for 13 researchers, it followed that the HEA would only fund a building of 260 sq m. Notwithstanding this, the Institute subsequently decided to construct a larger building. It appointed a design team and planning permission was obtained for a building of 857 sq m incorporating CBBR research space. The Institute paid design and planning fees of €201,888.

Having incurred these fees the Institute then sought funding from the Department of Education and Science and in April 2001 the Department set aside a provisional budget allocation of £1m (€1.27m) for the project. Following the initial submission to the Department on the project, the Institute was requested to forward a more detailed submission for consideration.

Subsequently, in April 2002, the Department advised the Institute that because of the need to prioritise projects on the basis of the funding available, it would not fund the CBBR in that year. The 2003 estimates process brought a freeze on third level capital development, including the Institute's project. In the mean time the Institute commenced the construction of 220 sq m of research space in conjunction with another project which it is expected will be completed in December 2004.

As it appeared that the design and planning fee expenditure of €201,888 incurred by the Institute might be nugatory, I asked the Director whether or not the building plans and/or planning permission had since been put to use or if the Institute had any proposals to utilise the plans in the future.

The Director informed me that the Institute had paused its plans for the construction of the research building for which planning approval was received. The Institute would wish to proceed with construction of the facility in the future but this was contingent on winning research funding. I also sought the views of the Secretary General of the Department of Education and Science.

He informed me that the Department did not at any time give formal approval to the Institute to proceed with the project on which it had incurred design fees. As he understood it, a design was progressed and fees incurred on a larger building which was the subject of the original PRTL I bid to the HEA but in allocating funding to the project, the HEA did not approve a building of that scale and the Institute subsequently raised its proposal for a CBBR building directly with the Department.

The Department set aside a provisional budget allocation of £1m (€1.27m) for the CBBR project in 2001. This was done consistent with a policy view that the Institutes of Technology sector should be provided with some modest basic research infrastructure so that the sector could support industrial policy in relation to direct foreign investment and in the Border Midland West (BMW) region in particular. In notifying the Institute of the provisional budget allocation for the project, the Department also advised the Institute that spending could not actually be incurred until the project was fully approved.

When the funding application was first made to the Department, the Institute had developed the project up to the stage of the preparation of the Bill of Quantities (Stage 5) because it believed that it could not have sought private sector funding without first producing a design of the proposed research facilities. The Department had not issued any approval to the Institute to initiate the design of the CBBR building.

The Department agreed to fund 50% of the fees incurred up to Stage 3 (developed sketch scheme) of the project on the basis that the Institute had sought a 50 % contribution from the Department in respect of the overall project. The Department had paid €49,562 to the Institute in 2002.

The Secretary General further stated that while he could not say when the project might progress, the rationale for the Department's support for it remained strong and the Department did not regard its contribution as nugatory expenditure at this point.



**John Purcell**

**Comptroller and Auditor General**

12 March 2004