



West Midlands Combined Authority

Internal Audit Report:

Title

*“REVIEW OF ADULT EDUCATION BUDGET
– 2022-2023”*

Report Date: 25 JULY 2023

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1. Executive summary

Introduction

- 1.1 A review of Adult Education Budget (AEB) was included in the Annual Internal Audit Plan 2022/23 approved by the Audit, Risk and Assurance Committee (ARAC). The purpose of the review was to provide independence assurance regarding the robustness of the Provider Performance Management arrangements and the Internal Controls established over the AEB process. The AEB process contributes towards the delivery of objective 1.3 of the WMCA Aims. The process primarily sits within the Economy, Skills, and Communities Department, but is supported by Finance, Legal & Governance and Procurement services in delivering its remit. The Budget for 2022/23 was in excess of £132M. Hence an annual internal audit review of AEB is essential in view of its materiality and potential risks.
- 1.2 The Provider Performance Management Arrangement process is underpinned by the delivery plan, which is agreed with training providers at the beginning of each contracting year. The delivery plan forms the basis of monitoring the performance of providers throughout the contracting year. Effective delivery of the plan demonstrates the proper use of public funding as well as the achievement of corporate objectives in facilitating WMCA desired outcomes and DfE policy objectives. To this effect, the effectiveness of the provider review process using a sample of providers formed a key aspect of this review.
- 1.3 The previous Internal Audit Review of AEB was completed on 7 September 2021. The opinion was “satisfactory”. The scope of that review was intended to assess the arrangements made by the WMCA to implement its new role, following its devolved responsibility from the DfE to the WMCA. Following that review, Internal Audit and management agreed a set of actions which were intended to address identified gaps in the system. This review revisited progress made in delivering on the agreed action plan, which is set out on Appendix 1 to this report.

Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	The objective of the review was to provide assurance regarding the effectiveness of the arrangements in place for the delivery of adult education and training, including the arrangements to ensure an appropriate level of governance, risk management and financial probity.
Potential Risks:	The key risks identified in delivering the objectives are as follows: <ul style="list-style-type: none">• Appropriate funding not allocated to competent providers capable of delivering effective and efficient training programs to facilitate and enhance growth in job opportunities and the local economy.• Inability to identify errors or potential fraud regarding the application or misuse of funding allocations.• Risk of the local community not obtaining the benefits of upskilling or learning objectives, thus negatively impacting on the local economy

	<ul style="list-style-type: none"> Inability to identify or recognise available opportunities to enhance, or expand training opportunities, which may contribute to increased efficiency and good value for money.
Scope:	<p>The scope of the review covered the following aspects:</p> <ul style="list-style-type: none"> Funding allocations for 2022/23; Compliance with funding requirements, including performance management and monitoring, risk management and governance arrangements. Testing would cover each category of training providers. Where appropriate, areas for further development would be identified and proposals for improvements agreed with service management.
Limitations to the scope of our audit:	<p>Limitation of scope – the review was limited to established controls and compliance of the Provider Performance Arrangements as the primary control for the effective monitoring of delivery of the AEB budget. Testing was limited to activities during the financial year 2022/23 and covered the period up to R06.</p> <p>The sample of 9 providers is broken down as follows; 7 ITPs representing contract value of £7,924,875; 1 FE College, representing contract value of £22,537,907, and 1 LA representing contract value of £3,283,283. The combined total contract values of the sample are £33,746,065, equivalent to 25% of total AEB budget for the year.</p>

Overall conclusion

Overall conclusion: our overall conclusion is that the system established over the administration of the Provider Performance Management Review Process is “Satisfactory”. This means - Our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level. *(The table below shows range of audit opinions and what they mean*

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified

We rate each issue identified based on the following:

Red

Action is imperative to ensure that the objectives for the area under review are met

Amber

Action is required to avoid exposure to significant risks in achieving objectives

Green

Action is advised to enhance risk control or operational efficiency

We have identified one **amber** and three **green** issues where improvements could be made, arising from the following:

- **Approval Process for Increasing Providers Contract Values.**
- **Effectiveness of The PMR Process.**
- **Implementation of the Compliance and Audit Schedule.**
- **Implementation of the VEAT/Procurement Process.**

A summary copy of this report will be presented to the Audit, Risk and Assurance Committee.

Examples of good practice identified

During our work we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

Examples of Good Practice Identified

Implementation of Previous Agreed Actions

- An assessment of the implementation of the agreed actions from the previous audit concluded that 4 out of 5 agreed actions had been satisfactorily implemented. One action was partially implemented and was in the process of embedding. The implementation of these actions has strengthened the AEB process overall.
- The previous internal audit review which was concluded in September 2021, established that the AEB system had developed a comprehensive process which was largely compliant with ESFA funding guidance. At the time, the system was relatively new following the WMCA taking over the devolved responsibility for AEB from the DfE on August 2019, hence the system was being embedded. This review ascertained that the embedding process is progressing well, with some teething problems which are set out in section 2 below, including proposed actions to address few gaps in control identified during this review. The key good practice identified during this review are summarised below as follows:

Compliance with ESFA funding requirements; including performance management and Monitoring.

- There is an established well-functioning process for identifying suitable providers and to determine the safe or appropriate level of contact value that could be allocated to providers. The monthly PMR process maintained regular monitoring of providers performance and provides the opportunity to react as necessary to any emerging risks relating to underperformance, errors or general trouble shooting.
- The process enables errors or potential irregularities to be identified within a reasonable timeframe and facilitates appropriate remedial action as necessary. In addition, the system

is supplemented by a programme of random audits of providers carried out by the ESFA on a routine basis. Thus, adding another layer of control to the process.

- The AEB service has a well-defined planning cycle schedule which facilitates the identification of key tasks and enables relevant management action to be taken timely.
- A suitably documented Payment and Performance Management Framework was in place for the funding year 2022/2023 detailing guidance to ITPs, Colleges, and Local Authorities in receipt of funding from WMCA AEB.
- All providers in the sample received appropriate and relevant guidance covering the process which is compliant with ESFA requirements. Providers are required to sign up to these requirements as part of the funding agreement.
- Dedicated AEB Relationship Managers and Skills Delivery Officers were allocated to each provider for the purposes of ongoing liaison as well as undertaking performance reviews at periodic points throughout the funding year, including a dispute resolution procedure as well as an end of year reconciliation exercise.

Risk Management and Governance Arrangements.

- The framework incorporates a risk-based approach to performance management and monitoring arrangements which informs the level and frequency of reviews applied to each provider, as part of financial due diligence. The process is informed by ESFA guidelines.
- There is a Compliance and Audit Schedule which is designed to identify emerging issues or trends to facilitate and enable corrective action to be taken timely as part of the risk mitigation process.
- VEAT (Voluntary Ex-Ante Transparency Notice) reviews are conducted during the contract cycle to assess delivery and to identify additional steps required to facilitate variations in existing contracts to ensure achievement of the AEB budget. The review is supported by financial due diligence carried out by the AEB team and signed off by the Director of Employment and Skills, Finance, Procurement, and the Director Legal and Governance. Increases in contract values of provider agreements were given to 4 providers rated as outstanding, which represents the lowest risk, requiring 6 monthly financial review. The process only allows growth awards which are in line with AEB Investment Plan.
- Any provider with identified under performance at any performance management point are required to work with designated WMCA Relationship Manager and Compliance Officer by submitting a remedial plan setting out how they intend to address under-delivery. No funding payment for over delivery of provider's delivery plan is paid unless previously agreed in writing by WMCA

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

2. Findings and recommendations

Action is required to avoid exposure to significant risks in achieving objectives
Amber

1. Approval Process for Increasing Providers Contract Values.

Findings:

Two providers out of the sample of nine, received a 'cause for concern' letter. One of the two had received an increase in the ratio of bootcamp learners a couple of months prior to the event. This may raise questions regarding the effectiveness of the approval process which facilitated the increase of the agreement..

Implications:

Increases in contract values of providers who cannot deliver their remit would negatively impact on overall performance of AEB outcomes and WMCA aims and objectives.

Recommendations:

It is proposed that Management to review the basis for approving increases in provider contract values/profiles and assess its effectiveness in identifying the factors that informs the decision to vary the contact profiles of providers. Consideration should be given to placing greater emphasis on performance trends, learner satisfaction, as well as their financial strength.

Agreed Actions/Management Comments:

Not agreed - The contract terms for bootcamps allow providers 6 months, post-completion of programmes to record positive outcomes. At the time of awarding year 2 funding, Tech Talent was still within this timeframe. In addition, they had entered into a partnership agreement with the employer, Version 1, who had over 100 vacancies in the West Midlands to fulfil. To support this, growth was awarded. Performance continued to be monitored and where progress was not made in line with expectations, a cause for concern was issued.

Additional Comment by Internal Audit:

On the basis of management's response, and in view of internal audit concerns, we propose to amend the recommendation as follows: that management provides a copy of the outcome of any investigation carried out on the above provider, including any relevant action plan proposed or agreed with the provider, for internal audit permanent file.

Skills Team Response - The team's risk management approach was followed in both identified cases. This resulted in us issuing cause for concern letters and conducting necessary compliance checks. We had already given Bootcamp growth prior to the cause for concern being required. However, in order to close the audit action and alleviate internal audit concerns, we will send the outcome of the Tech Talent investigation that took place in February 2023. This investigation led to a 100% audit of the provision being completed, and the provider is currently receiving monthly support and monitoring until the end of the current contract in October 2023. This will allow residents to continue their training and successfully achieve their goals.

**Action is required to avoid exposure to significant risks in achieving objectives
Amber**

Responsible Officer: Delivery Manager

**Target Date:
ASAP**

**Action is advised to enhance risk control or operational efficiency
Green**

2. Effectiveness of The PMR Process

Findings:

Although the PMR process is a useful and effective control function, it was not always clear that all the actions identified to address some of the issues raised regarding providers with potential difficulties have been followed through or closed off. Therefore, it was not always possible to determine whether the identified issues have been satisfactorily resolved

Implications:

Potential difficulties or problems identified at ITPs, may not be addressed on a timely basis in order to minimise or prevent adverse financial impact on the WMCA, and therefore indirectly impacting on the achievement of objective 1 above.

Agreed Actions/Management Comments:

Management to introduce a control to indicate the date of relevant actions being completed and signed off by a responsible officer.

Agreed Actions:

PMR actions are followed up via email and at regular provider meetings. However, we agree to introduce the control proposed going forward from the start of the next academic year.

Responsible Officer:

Delivery Manager

Target Date:

July 2023

**Action is advised to enhance risk control or operational efficiency
Green**

3. Implementation of the Compliance and Audit Schedule

Findings:

Although the compliance and audit schedule contributes towards an effective process, it does not reflect the outcome of the last review and the results of the last external audit by the ESFA. Therefore, all available information relating to the latest developments relating to a provider's business may not be fully reflected on the schedule.

Implications:

May not give a true picture of developments within a provider's business, hence the potential for less than joined up approach to emerging issues affecting a provider. This may have implications for the effectiveness of decision-making affecting providers

Recommendations:

The compliance and Audit schedule would benefit from a section showing the outcome/rating of the last compliance check and external audit rating. This would facilitate and enable a more joined up approach to providers risk assessments and changes in providers' potential risk profiles

Agreed Actions/Management Comments:

Partially agree-

We do not agree that the ESFA audits make judgement on a provider's capacity or performance, they are based on a financial risk. Therefore, we are requesting that the wording of the findings/implication and proposed actions need to be updated to reflect this. We agree to update the audit schedule to reflect the outcome of the last review/audit from the start of the next academic year.

Responsible Officer:

Delivery Manager

Target Date:

July 2023

Action is advised to enhance risk control or operational efficiency
Green

4. Implementation of the VEAT/Procurement Process

Findings:

The version of VEAT Extension review briefing note on file of “April 2023”, was not signed by all required parties: legal, procurement, finance and not endorsed by director of Law and Governance. Also, the VEAT review took place two thirds into the contracting cycle. It may be more meaningful to undertake such a review earlier, about mid-contract cycle as this would facilitate the desired outcome, by ensuring that there is sufficient time and capacity to implement relevant action.

Internal Audit Updated Comment: On the basis of further information received from the AEB team, our original findings no longer applies. We therefore are happy with the action agreed that the AEB team would ensure that the full date is on briefing papers going forward.

Implications:

May not give a true picture of developments within a provider’s business, hence the potential for less than joined up approach to emerging issues affecting a provider. This may have implications for effective decision-making affecting providers

Recommendations:

Provider payment should be based on actual performance, as indicated on the funding requirement; or adjustments made at the next payment run following variation in performance targets of 10%.

VEAT proposal schedule should be signed and endorsed by all relevant parties to demonstrate compliance with the appropriate level of control. Additionally, consideration should be given to the review being undertaken earlier (about mid contract cycle to enable more impactful outcome).

The actual date of the proposal, incorporating, day, month, and year, should be recorded on the proposal

Agreed actions:

Partially agreed – We do not agree with the findings and proposed actions regarding the VEAT extension review and payments. ITPs are already paid on actual performance with any adjustments made at the following monthly payment run. A copy of the fully signed briefing note has been forwarded with this response, please note the endorsement by the Director of Law and Governance was not required. The standardised template for briefing notes was used in line with governance requirements. Consideration regarding the mid-contract review is not required for VEAT extensions as this was a one-off process that has been replaced by procurement rounds. We do agree to ensure the full date is on briefing papers going forward.

Responsible Officer:
AEB Management Team

Target Date:

July 2023

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted, or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

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

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will 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.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Stage	Date
Draft issued	23 May 2023
Exit meeting	12 June 2023
Final issued	25 July 2023
ARAC reporting date	October 2023
ARAC meeting date	