

Chapter 29

Department of Enterprise, Trade and Innovation

National Training Fund - Skillnets

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29.1 The National Training Fund (NTF) was established under the National Training Fund Act, 2000. Its resources are used to fund training of people who are either in employment or seeking employment. The fund is resourced by a levy collected from employers as part of social insurance contributions. It was set at 0.7% of the reckonable earnings of employees in 2009. Payments from the NTF may be used to finance a range of schemes aimed at

- raising the skills of those in employment
- providing training to those who wish to acquire skills for the purposes of taking up employment
- providing information in relation to existing, or likely future, skills requirements in the economy.

29.2 The amounts to be paid in pursuance of those objectives are determined by the Minister for Education and Skills²²⁴ with the consent of the Minister for Finance. The total expenditure from the NTF in 2008 and 2009 is shown in Figure 143.

Figure 143 National Training Fund Expenditure 2008 and 2009

Expenditure	2008 €m	2009 ^a €m
<i>Training for those in employment</i>		
FÁS	168.8	103.2
Skillnets Limited ^b	26.0	16.6
Enterprise Ireland	3.0	2.9
IDA Ireland	2.5	2.5
Skillnets Services Limited ^c	0.7	-
Other bodies	<u>1.3</u>	<u>1.4</u>
	202.3	126.6
<i>Training for employment</i>		
FÁS	195.8	238.9
<i>Provision of information on skills requirements</i>		
FÁS – Skills Analysis Unit	0.4	0.4
Forfás	<u>0.5</u>	<u>0.5</u>
	0.9	0.9
Total Expenditure	399.0	366.4

Source: Department of Enterprise, Trade and Innovation.

Notes:

- a The 2009 expenditure figures are subject to audit.
- b The 2009 amount of €16.6 million includes an allocation of €1 million to the Finuas Networks Programme dedicated to providing specialised training within the International Financial Services industry.
- c Skillnets Services Ltd is a wholly owned subsidiary of Skillnets Limited established to manage the Accel Programme from 2006 to 2008. The total cost of the programme was €24.2 million. ESF support provided up to 75% matching funding of €13 million, the National Training Fund contributed €3.6 million (final payments of €0.7 million were made in 2008) and member companies provided the remaining €7.6 million.

²²⁴ Responsibility for the National Training Fund, FÁS and Skillnets transferred from the Department of Enterprise, Trade and Innovation to the Department of Education and Skills from May 2010. National Training Fund expenditure and allocation of funding for 2009 was the responsibility of the Department of Enterprise, Trade and Innovation.

Chapter Focus

As Skillnets is an example of a service delivery model where publicly subvented services are delivered by the private sector at arms length from the funding body, I reviewed how those services are delivered and how the use of the public funding is monitored to ensure that it is applied for the purpose intended.

Skillnets Programme

29.3 Skillnets Limited (Skillnets) is a company wholly funded from the NTF in order to support the development of workplace skills. It supports and funds networks of enterprises to engage in industry specific training under the Training Networks Programme (TNP). The Skillnets board comprises employer and employee representatives as well as three nominees of the Minister for Education and Skills. Skillnets operates under a five-year agreement with the Department of Education and Skills (DES) and the current agreement runs until 2010.

29.4 The concept involves supporting and funding networks of enterprises to come together to jointly address their common training needs, collaborate with other enterprises and engage experts, trainers, certifying bodies, industry bodies and others to work with them to achieve their training goals. Following an agreed budget allocation from the DES, Skillnets invites applications for funding from groups of enterprises including existing training networks. Proposals received are assessed against set criteria before successful networks are funded for the TNP on a two-year basis.

Funding Arrangements

29.5 Skillnets was originally allocated €24.8 million for 2009. However, due to the economic downturn and reductions in government spending, the allocation was subsequently reduced in March 2009 by close to €5 million and by around a further €3.5 million by mid-May resulting in a final budget of €16.6 million for the year. Expenditure by Skillnets in 2008 and 2009 is shown in Figure 144.

Figure 144 Skillnets Ltd Expenditure in 2008 and 2009

	2008	2009 ^a
	€m	€m
Direct Programme Cost	23.6	13.8
Administration Cost ^b	2.6	2.7
Total	26.2	16.5

Source: Skillnets

Notes:

a The 2009 amounts are provisional figures.

b The administration costs are lower in 2008 as they were in effect subsidised by Skillnets Services Ltd by approximately €500,000 due to the transition of staff and other resources between Accel and TNP.

29.6 In managing the TNP, Skillnets does not deliver training directly to networks²²⁵. When a network is approved for TNP funding, it appoints a contracting organisation²²⁶ to sign a funding agreement with Skillnets on its behalf. The agreement includes a network plan and sets out the network's targeted deliverables and outcomes and the approved budget. A network manager is appointed by the contracting organisation to manage the implementation of the plan.

29.7 Grant payments are made on a phased basis to networks by Skillnets and the first payment (30% of grant) is issued in advance in order to allow a network immediate access to the funds required to deliver the plan. Further payments are conditional on the network reaching a certain level of activity and performance. The final retention payment (15% of total grant) is not made until the following year and is conditional on the network meeting all of Skillnets financial and reporting requirements, including the submission of an independent accountants report.

29.8 Funding received is used to support networks of enterprises to engage in training. The networks are led and managed by the enterprises themselves who design, manage and deliver specific training programmes across a range of industry and service sectors. The networks are monitored by Skillnets to ensure that they comply with all reporting and operational guidelines issued and they in turn are required to monitor the delivery and quality of training to the employees of the member companies.

29.9 Network member companies contribute a certain amount of matching funding. Under the TNP 2008-2009, matching funding, of between 10% and 30% of the cost of all eligible network activities was provided by member companies. Matching funding took the form of membership fees and/or training course fees.

29.10 Skillnets set out procurement guidelines for networks. These cover arrangements for the appointment of training providers²²⁷. Procurement arrangements for these appointments are the responsibility of the network manager, steering group and contracting organisation.

Programme Output

29.11 123 training networks were initially approved for funding under the 2008-2009 TNP. These were subsequently reduced to 103 by the end of 2009 due to funding cutbacks. The targeted number of persons to be trained in 2009 was set at 39,850. Actual numbers trained were reported at 40,123. Training to management in the SME sector, which is a key target group for Skillnets, represented 35% of the total training in 2009.

29.12 The actual number of training days delivered in 2009 was 193,757, which exceeded the targeted number of training days of 182,400 by 6%. The percentage of certified courses accredited under the National Framework of Qualifications²²⁸ was 30% and represented 59% of training days delivered. The 2008-2009 TNP incentivised networks to increase the amount of training provided to those with low basic skills by providing an extra premium to networks for providing such training. In 2009, 93,020 training days were provided for those with low basic skills against a target of 79,950 days.

²²⁵ The exception is a level 6 Diploma in Managing Business Networks accredited by the Dublin Institute of Technology which Skillnets deliver each year to network managers.

²²⁶ The contracting organisation must be a corporate body and is responsible for establishing a Steering Group, appointing a network manager and ensuring the implementation of the network plan and compliance with all of the conditions of the funding agreement.

²²⁷ Skillnets has no direct commercial or contractual relationship with training providers. The contracting organisation for each network is responsible for appointing training providers.

²²⁸ The National Qualifications Authority of Ireland is responsible for the implementation of the National Framework of Qualifications introduced in 2003, which provides a framework to compare and contrast the level and standard of different qualifications.

Control and Monitoring

29.13 A programme support manager within Skillnets is allocated to each network to provide support and monitor the network finances. The programme support managers conduct quarterly reviews of each network's progress in delivering the targeted training programme including details of income and expenditure, member companies, participants and training activities. These are recorded on a management information system – the Skillnets Activity Management on-line reporting system. The networks electronically submit regular updates on their financial activity, training activity and evaluation information which feed into the quarterly progress reports. The information system is also used to ensure that reporting requirements of networks are met before the final grant instalment is made. These requirements include the submission of an independent accountant's report on network finances and an independent evaluator's report that assesses the degree to which performance targets have been achieved.

29.14 Skillnets aims to carry out a monitoring visit to each network once in each two yearly cycle to review the organisation and control of the network, the network finances and to give guidance on financial issues – these are known as finance visits. 16 finance visits were carried out in 2008, two in 2009 and a further one to date in 2010. According to Skillnets, the increased workload and reduced staff resources caused by funding reductions impacted on its ability to complete finance visits.

29.15 During a visit to Skillnets, staff from my Office reviewed inspection reports arising from the finance visits. These indicated that various control weaknesses were identified and networks had been issued with comments and recommendations to improve controls. Control weaknesses identified in finance visits included

- Procurement issues arose in 12 of the 19 networks visited between 1 January 2008 and early 2010 – supporting documentation such as scoring sheets were missing for tenders in nine of the 19 networks and contracts were not tendered for in five of the 19 networks reviewed.
- Trainee profile sheets were missing or incomplete in five of the 19 networks visited and for one course 18 out of 50 profiles were missing. Attendance sheets were ticked rather than signed in two networks and missing for one course with five participants in another network. Evaluation forms were missing or incomplete in five networks.
- Other control weaknesses related to issues such as incorrect classification of expenditure or income items and missing records of meetings.

29.16 One network of the 19 visited had been the subject of anonymous allegations of malpractice received by the Department of Enterprise, Trade and Innovation in February 2009. In late 2008, arising out of its own monitoring procedures, Skillnets had a number of concerns about the network relating to banking practices and procurement issues and were following up on these matters prior to the allegations being received. Skillnets staff conducted a review of all financial and operating procedures in March 2009 and issues were identified in relation to the operation of a second bank account and the provision of training services by an external evaluator engaged to evaluate the network's performance.

29.17 The main concern related to the procurement practices of the network. Skillnets disallowed all expenditure to a training company in 2008 amounting to €37,965 and costs incurred by the network in 2009 amounting to €65,520 were also deemed to be ineligible. No loss of public funds occurred in this instance.

Training Delivery Concerns

29.18 Following the receipt of anonymous allegations in February 2010 in relation to a specific training provider, Skillnets began an investigation and identified 24 networks that had made payments to that training provider in the 2008-2009 TNP. Skillnets officials made unannounced visits to four networks in February 2010 that had been named in the allegations and as they had serious suspicions of fraud in the case of two networks, the Garda Bureau of Fraud Investigation was informed in March 2010. Skillnets engaged the services of a firm of Chartered Accountants, who have also acted as internal auditors to Skillnets for the previous three years, to assist in the investigation and to report on its findings to the Board of Skillnets.

Investigation Findings

29.19 The investigation by the accountants found that 24 networks had made payments to the training provider in the 2008-2009 TNP. There was evidence to support the allegations in relation to 12 of these networks. No evidence of irregularities was found in ten and investigations into the remaining two are on-going. The 12 networks paid the training provider a total of €19,520 for 24 courses. The findings of the investigation in relation to these 24 courses were

- eight courses were not delivered
- a further eight of the courses were delivered to companies who were not members of the relevant network
- eight courses were delivered to network members but in four of these cases there was insufficient evidence that all of the trainees claimed for attended
- in three of the eight courses that were delivered to network members, the training provider collected the matching income directly from member companies
- payment for one course which was delivered was disallowed because, although the company was a member of the relevant network, it was publicly funded and therefore ineligible.

~~29.20~~ The investigation found that for courses that did not take place there were trainee profile sheets, evaluation forms and signed attendance sheets on file for the trainees who allegedly attended these courses.

29.21 One of the 12 networks made a payment of €12,000 to the training provider for the delivery of two courses. The training provider subsequently informed the network that the payment should not have been applied for as trainees paid their own fees for one of the courses and the other was cancelled due to lack of numbers. The investigation found that documents may have been fraudulently prepared or manipulated in relation to the course that was cancelled. Skillnets brought this matter to the attention of the Garda Bureau of Fraud Investigation. The provider refunded the €12,000 to the network but the incident was never disclosed to Skillnets, which might at the time have helped to deter further malpractices. The refund was subsequently incorrectly treated as income resulting in an overclaim of expenditure by the Network, which is being pursued by Skillnets.

29.22 It was noted during the course of the investigation that some Waterford Institute of Technology (WIT) certificates were retained on file as evidence of training. Skillnets made contact with WIT in May 2010 and provided documentary evidence of the WIT certificates for verification. After reviewing the certificates, WIT informed Skillnets that the certificates did not appear to be genuine nor were they signed by an authorised official. WIT is to further investigate the matter.

29.23 In relation to any net loss of public funds, Skillnets has reviewed all courses provided by the named provider to the 24 networks and may deem network expenditure totalling €19,720 as ineligible based on their findings, with Skillnets grant funding applicable to these payments amounting to €202,586. To date, Skillnets has deemed expenditure of €129,800 as ineligible with grant funding applicable to this expenditure amounting to €95,634. After allowing for retention money accruing to the networks from 2009, the maximum loss of public funds is estimated by Skillnets to be €9,645. Skillnets is working with the contracting organisations of the networks to recover, in whatever way appropriate, the loss of public funds and will consider taking legal action for recovery of debt or other redress where appropriate.

29.24 The investigation found cases where the training provider paid the matching income over to the network. The effect of allowing the training provider to collect the matching income is to reduce the contact the network has with its member companies and trainees. This raises the possibility of the inclusion of fictitious trainees as the network cannot directly verify the numbers of trainees in attendance and it assists in concealing training courses that did not take place.

29.25 The investigation identified two networks that were operating more than one bank account to lodge matching funding, contrary to Skillnets funding conditions.

Allegations Relating to FÁS

29.26 Skillnets informed FÁS in February 2010 of allegations that FÁS had also been the subject of these malpractices. FÁS met with Skillnets on 26 February 2010 and based on this meeting immediately commenced a review of its activities with the trainer. Based on this work, a decision was made to allocate a member of the internal audit team to commence an investigation. The detailed work commenced in May 2010. FÁS informed me that

29.27 The training provider had received contracts worth €58,498 in the years 2003 to 2010. Initially, audit work is focussing on four head office contracts with a total value of €107,500 in 2008-2009.

29.28 The potential loss of public funds cannot be accurately estimated until the investigation is complete and any loss will be offset against monies due to the training provider. Outstanding payments of €38,362 to the provider are currently being withheld along with retention monies of €12,458 in respect of a training contract.

29.29 The investigation is continuing and FÁS cannot commit to a report completion date until all enquiries are completed.

Observations of Skillnets

29.30 The Chief Executive Officer (CEO) stated that Skillnets has now committed to conducting at least one compliance visit per network annually. The commitment to compliance checks will complement the quarterly and annual monitoring processes. The scope of these visits will be expanded, above finance visit checks, to include sample checks with companies and trainees with regard to the training delivered. The sample checks can take place at any time during the year and networks have been informed that Skillnets have directed that network managers should attend as many training events as is feasible and that Skillnets staff may attend training events on an unannounced basis.

29.31 The CEO stated that the operating guidelines and funding agreements have been amended to make clear how networks should manage their relationships with member companies, the rules relating to the payment of matching income and the requirement that networks operate one bank

account. Procurement guidelines have also been expanded to include further guidance on contracting with service providers.

29.32 In response to my enquiry as to what further actions Skillnets propose to take to bring this matter to a conclusion, the CEO explained that they were still engaged in the following

- concluding on the scale of ineligibility for all networks where this has yet to be determined
- where there are insufficient retention monies held, pursuing repayment of the grant related to ineligible expenditure
- continuing liaison with FÁS and WIT as they progress through their own investigations and continuing contacts with the Garda Bureau of Fraud Investigation
- based on legal advice obtained, all current networks have been informed not to use the named training provider without the consent of Skillnets
- Skillnets have commenced a sample based audit of the providers for the years 2008 and 2009 based on the criteria of scale of expenditure, spread of activity with other networks and instances where issues have been identified.

Views of the Accounting Officer

29.33 Prior to May 2010, responsibility for the National Training Fund and therefore Skillnets funding rested with the Department of Enterprise, Trade and Innovation. As responsibility has since been transferred to the DES, I sought the observations of the Accounting Officer of that Department.

29.34 The Accounting Officer informed me that any specific requirements DES may have, in terms of policy aims to be underpinned by Skillnets TNP, are communicated to Skillnets by DES as conditions of the confirmation of their funding. Requests for tranches of funds voted to Skillnets are examined by DES to ensure their appropriateness. The Minister for Education and Skills nominates three representatives to the Board of Skillnets, one of whom is an officer of DES. The relationship between Skillnets and DES is set out in the Mandate and Funding Agreement for TNP which in its current form runs until the end of 2010. DES obtains assurance as to the financial control of Skillnets through the monitoring and control mechanisms operated by Skillnets and the reporting mechanisms to the Board and to DES.

29.35 In relation to the allegations of irregularities, Skillnets kept DES informed at all stages and DES is satisfied with Skillnets investigation of the matter to date. DES has agreed with Skillnets that a number of strengthened monitoring measures are required taking into account the recommendations of the investigation report. Matters arising from the allegations and their investigation will be considered in the context of any future funding of Skillnets TNP.

29.36 DES will consider the results of an external evaluation of TNP, to be commissioned by Skillnets in 2010, with a view to any improvements recommended in the TNP and its operation. In providing funding for the 2010 TNP, DES had already, in December 2009, required a number of new measures including

- a consolidation and streamlining of the number of networks funded (with a maximum of 70 to be funded)
- a requirement that networks provide an increased level of matching funding of 50%
- a limit on the management costs of networks to 25% of total expenditure, all of which are to be met by private funding

- the capping of retention payments at 10% of total grant paid and at €1 million in total across the TNP.

Conclusion

A plan of control designed to ensure that services subvented are actually delivered is necessary in order to ensure that public money is ultimately applied for the purpose intended.

Funding reductions adversely affected the number of monitoring visits carried out by Skillnets.

The lack of direct contact by Skillnets with member companies or trainees and the absence of sampling or spot-checking on individual courses or events run by networks made it difficult to verify that training took place.

There needed to be more separation of the functions of training procurement and provision. Allowing the training provider to take too active a role in the delivery and financial management of training networks made it difficult to identify those courses that did not take place or were not provided for the benefit of members.

The recommendations of the investigating accountants summarise the areas where Skillnets need to enhance its control regime including

- direct follow-up contact by Skillnets with trainees
- clear written communication to each network of its responsibilities
- allocation of a unique identifier to each training provider and quarterly review by Skillnets of total payments to each provider
- full details of matching income to be recorded by networks on Skillnets' management system and reconciliation of matching income for each course
- review of procurement in each network
- written confirmation from network directors that only one bank account operated and a requirement that independent accountants obtain standard bank confirmations.

In response to my enquiries in regard to the lessons learned as a result of this incident and how this experience will inform future monitoring and operational procedures, the CEO of Skillnets informed me that the recommendations for new and amended systems of control contained in the investigation report have been fully accepted and will be implemented in 2010. He said that the incident pointed out the risks involved when networks allow the training provider to take too active a role in the delivery and financial management of training. It also highlighted the need for Skillnets to more effectively monitor, on a sample basis, the end-users of the training i.e. trainees and companies.

Chapter 30

Department of Enterprise, Trade and Innovation

Redundancy and Insolvency Payments