



22 October 2009  
[www.wao.gov.uk](http://www.wao.gov.uk)

WALES **AUDIT** OFFICE  

---

SWYDDFA **ARCHWILIO** CYMRU

# Work Based Learning Follow-up Report

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

# Work Based Learning Follow-up Report

I have prepared this report for presentation to the National Assembly under the Government of Wales Act 2006.

The Wales Audit Office study team that assisted me in preparing this report comprised Helen Goddard, Mark Jeffs and Mike Usher.

**Jeremy Colman**  
**Auditor General for Wales**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

The Auditor General is totally independent of the National Assembly and Government. He examines and certifies the accounts of the Assembly Government and its sponsored and related public bodies, including NHS bodies in Wales. He also has the statutory power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also appoints auditors to local government bodies in Wales, conducts and promotes value for money studies in the local government sector and inspects for compliance with best value requirements under the Wales Programme for Improvement. However, in order to protect the constitutional position of local government, he does not report to the National Assembly specifically on such local government work, except where required to do so by statute.

The Auditor General and his staff together comprise the Wales Audit Office. For further information about the Wales Audit Office please write to the Auditor General at the address above, telephone 029 2032 0500, email: [wales@wao.gov.uk](mailto:wales@wao.gov.uk), or see web site <http://www.wao.gov.uk>

© Auditor General for Wales 2009

You may re-use this publication (not including logos) free of charge in any format or medium. You must re-use it accurately and not in a misleading context. The material must be acknowledged as Auditor General for Wales copyright and you must give the title of this publication.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned before re-use.

**Report presented by the Auditor General to  
the National Assembly on 22 October 2009**

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER  
LEGAL ISSUES



---

	<b>Summary</b>	<b>6</b>
	Recommendations	10

---

<b>1</b>	<b>Financial control at Work Based Learning providers has improved considerably as a result of the Assembly Government's strengthened arrangements</b>	<b>12</b>
	Financial control at providers is vastly improved and recent weaknesses arising from changes to funding arrangements are being addressed	12
	The Assembly Government has clearly set out the controls that all providers must have in place and taken steps to explain them although there were initially weaknesses in new guidance around guided contact hours	17
	The Assembly Government has strengthened its approach to financial controls	18

---

<b>2</b>	<b>The Assembly Government has used the retendering process and its Provider Performance Reviews to drive up the quality of Work Based Learning, and plans to address concerns about perverse incentives through new quality arrangements</b>	<b>21</b>
	The quality of Work Based Learning provision has improved	21
	The Assembly Government made use of the retendering process in 2007 to drive up standards and to terminate funding to the worst providers in terms of quality and financial management	22
	The Assembly Government has used performance management and inspection arrangements to drive up the quality of learning and plans to address some providers' concerns about perverse incentives through a new Quality and Effectiveness Framework	23

---

3	<b>The Assembly Government has not systematically applied the lessons learnt from earlier problems with Work Based Learning across the organisation but new management arrangements are intended to enable better shared learning in future</b>	<b>27</b>
	DCELLS officials identified the lessons from the problems with Work Based Learning, but they were not systematically applied across the Assembly Government	27
	The Assembly Government intends that its new Director General Operations Teams should support better learning of lessons and sharing of good practice across its departments	28
<hr/> <b>Appendices</b>		<b>30</b>
	Appendix 1 - Methods	30

## Summary

- 1** In 2006, the Auditor General reported on serious weaknesses in the controls over funding for Work Based Learning by the National Council for Education and Training in Wales (otherwise known as ELWa) in 2004-05. On the basis of the Auditor General's report, the Audit Committee of the National Assembly for Wales (the Audit Committee) took evidence from senior officials from the Assembly Government (which had taken over the functions of ELWa following a merger in April 2006). The Audit Committee made nine recommendations, aimed at:
  - a** strengthening controls and audit arrangements;
  - b** improving future contracting arrangements with training providers to drive up quality; and
  - c** incorporating lessons from Work Based Learning into other Assembly Government projects.
- 2** The Assembly Government accepted all nine of the Audit Committee's recommendations in full. Sufficient time has now passed for the Assembly Government to implement the recommendations and for the benefits to have started to materialise. We therefore examined whether the Assembly Government has effectively implemented the recommendations of the Audit Committee to improve the financial management and administration of Work Based Learning and the disseminate lessons learnt.
- 3** We concluded that financial control and learning quality have improved significantly among Work Based Learning providers thanks in large part to the Assembly Government's strengthened audit and performance management arrangements, but that the lessons learnt have not been systematically applied across its organisation. We reached this conclusion because:
  - a** financial control at Work Based Learning providers has improved considerably as a result of the Assembly Government's strengthened arrangements;
  - b** the Assembly Government has made use of a retendering process and reviews of the performance of its providers to improve the quality of Work Based Learning, and plans to address concerns about perverse incentives through new quality arrangements; and
  - c** the Assembly Government has not systematically applied the lessons learnt from earlier problems with Work Based Learning across the organisation, but new management arrangements are intended to enable better shared learning in the future.

## Financial control at Work Based Learning providers has improved considerably as a result of the Assembly Government's strengthened arrangements

- 4** Financial controls at Work Based Learning providers have improved considerably over the past seven years, as demonstrated by the findings of the Assembly Government Provider Audit and Governance Service (PAGS). The PAGS examines the underlying systems of control to check whether providers can demonstrate that their systems for recording and entering data are sound. It also examines whether public funding has been used for its intended purpose, in line with the terms and conditions of the providers' contract. The PAGS issues two audit opinions: one on the systems of control and the other covering the use of funds. These can be:
- a** an 'unqualified' opinion, in which case the PAGS is satisfied with the robustness of the data or system;
  - b** an 'except for' opinion, where the PAGS is largely satisfied but has identified single areas of concern that need to be addressed; or
  - c** a 'qualified' opinion, where the PAGS is not satisfied with the robustness of the data or the system.
- 5** Qualified audit opinions regarding systems of financial control at Work Based Learning providers have fallen from 98 per cent of all providers audited in 2002/03 to just one per cent in 2008/09<sup>1</sup>. Qualified opinions on the use of funds have also fallen from 68 per cent of all providers audited to just one per cent over the same period. Nevertheless, between 2007/08 and 2008/09, the number of 'except for' opinions rose from five to sixteen, partly as a result of providers not updating their systems to reflect changes to the Work Based Learning programme.
- 6** There were some problems in 2007/08 and 2008/09 as a result of changes to the basis on which the Assembly Government pays Work Based Learning providers. When it issued new contracts from 1 August 2007, the Assembly Government introduced the National Planning and Funding System (the NPFS), which was already used in other parts of the post-16 education sector. The NPFS introduced a formula, whereby the amount the Assembly Government paid providers would be based on the number of hours of guided learning they delivered. Many providers struggled with the requirement to provide evidence of guided contact hours. The Assembly Government worked with providers to develop a temporary solution, whereby providers could opt out of the requirement to evidence guided contact hours and receive at least 90 per cent of their previous funding under a new formula. Providers would still have to provide evidence of ongoing learning through regular reviews.
- 7** Although the Assembly Government had developed the formula-based option, by July 2008 only 35 per cent of providers had taken this option. The PAGS identified three providers that had failed to record guided contact hours properly and a further 38 providers who may have overstated the number of guided contact hours. The PAGS was concerned that weaknesses in the original programme guidance might complicate the Assembly Government's ability to recover any overpayments and estimated that as much as £2 million funding was at risk. The PAGS subsequently worked with providers to address the issues and many more providers transferred to the formula-

<sup>1</sup> In general, dates in this report refer to academic years running from 1 August to 31 July. Academic years are indicated by the use of '/', for example: 2008/09.

based option. By 2008/09 the problems had been largely addressed although. The PAGS still recorded 'except for' opinions in respect of four providers because of weaknesses in recording guided contact hours.

8 The Assembly Government has taken steps to better communicate its requirements in respect of audit and financial controls. It has put guidance online to make it more accessible, which some of the providers in our survey sample welcomed. Some providers in our survey also commented positively on the increased efforts that the PAGS has made to directly communicate its expectations to providers and respond to queries about the programme guidance.

9 Over the past four years, the Assembly Government has strengthened its approach to financial controls. As financial controls have improved, the PAGS has been able to refocus its efforts on drilling down in detail to work out the root cause of problems, rather than just issue qualified audit opinions. The Assembly Government has also recently introduced pre-payment checks on providers' data that are intended to prevent incorrect payments being made in the first instance. The PAGS has made good use of self-audits by providers as a tool to deter poor practice and also as an opportunity for providers to better understand and make improvements to their systems. Providers in our survey sample that have been through self-audits were positive about the results and the help received from the PAGS.

10 The PAGS places providers on what is known as audit escalation if they fail to make adequate progress to address weaknesses identified by the PAGS. It has used audit escalation procedures with 10 providers since 2005. Providers placed on audit escalation have their funding frozen and are unable to

bid for additional work beyond their contract. If providers on audit escalation fail to make adequate progress, the Assembly Government can terminate the contract, although it has not yet needed to do so.

11 From the 2008/09 academic year, the PAGS has taken responsibility for auditing the data of large providers (those providers with contracts valued at more than £1 million). These providers were previously audited by independent external auditors appointed by the provider. The PAGS will continue to use the risk-based audit approach it already uses for small providers. This approach reflects good practice and will mean that those providers the PAGS assesses as high risk will get the most frequent and detailed attention from the PAGS, while those who have demonstrated consistently that they have sound systems can benefit from a more light-touch audit regime.

**The Assembly Government has made use of the retendering process and its Provider Performance Reviews to drive up the quality of Work Based Learning, and plans to address concerns about perverse incentives through new quality arrangements**

12 The quality of Work Based Learning has improved significantly over the past four years. The Assembly Government's Provider Performance Reviews (PPRs) show that in 2005 just two per cent of providers scored 'excellent' for learners' experience and achievement, whereas 43 per cent had 'some concerns' and 15 per cent 'serious concerns'. By 2009, 30 per cent had an 'excellent' score, with four per cent having 'some concerns' and none with 'serious concerns'. Inspections by Her Majesty's Inspectorate for Education and Training in Wales (Estyn) provide independent evidence of improvement: in 2004/05 Estyn assessed just 14 per cent of providers as



having 'good or better standards of learning achieved' but in 2007/08 this rose to 85 per cent.

**13** In line with the Audit Committee's recommendations, the Assembly Government used evidence regarding learning quality and financial management in making decisions during the retendering of contracts in 2007. The Assembly Government required all bidders to bid for work on the basis of PPR scores and categories, which at that time included financial management. The Assembly Government did not renew the contracts of 13 of the poorest performing providers, and required some other providers to implement an action plan to address known weaknesses. Although most of the providers in our survey sample told us that the retendering process had helped to drive up quality, some of the providers thought that the Assembly Government had not gone far enough in not renewing the contracts of some of the weaker providers.

**14** The Assembly Government has made use of PPR and inspection to manage providers that need to improve the quality of provision. Where providers do not have 'satisfactory' scores their funding is frozen, as with audit escalation, and they are required to develop an action plan to address weaknesses. If the provider does not make acceptable improvements, the Assembly Government can put them on escalation on grounds of poor performance. If progress remains unsatisfactory the contract can be terminated. The Assembly Government has terminated one provider's contract on these grounds. The Assembly Government also terminates the contracts of providers that fail an Estyn reinspection. So far, two have failed: one did not have its contract renewed in 2007 and the Assembly Government terminated the contract of the other.

**15** The Assembly Government has not yet made full use of PPR to address common weaknesses and share good practice, although it is developing benchmarking to encourage shared learning. At present, PPR is focused largely on providing feedback to individual providers and although there is a general analysis, this does not pick out common weaknesses and success factors. However, the Assembly Government is developing benchmarking: giving providers a detailed breakdown of the data that underpins the PPR scores for their institution, and showing anonymised scores from other providers, so that they can compare performance. The Assembly Government intends that in future this benchmarking will encourage providers to work together to understand success factors and share learning and good practice. To encourage this, it has funded the National Training Federation for Wales to host regional benchmarking groups.

**16** A PPR rightly focuses on outcomes for learners: achieving qualifications and moving on to employment. But some providers in our survey sample told us that they had concerns that the focus on outcomes in PPR creates an incentive to cherry pick learners most likely to succeed, possibly at the expense of more disadvantaged and needier applicants. The Assembly Government told us that it is aware of providers' concerns. It has taken some steps to mitigate risks through a guarantee to learners on the Skillbuild programme, and intends to further address concerns through its new Quality and Effectiveness Framework which will replace PPR in phases from autumn 2009. The Assembly Government intends that the new framework will take account of the 'distance travelled' by learners even if they do not succeed in getting a qualification or employment.

**The Assembly Government has not systematically applied the lessons learnt from earlier problems with Work Based Learning across the organisation, but new management arrangements are intended to enable better shared learning in future**

- 17** The Audit Committee's report made two recommendations aimed at applying the lessons learnt from earlier problems with Work Based Learning more widely to other Assembly Government projects. We found that although the Assembly Government had identified the key lessons in a paper put to senior managers, that those lessons had not been systematically shared and applied more widely. We found evidence that DCELLS itself had applied some of the lessons to Work Based Learning, particularly in the example of providers' difficulties recording and evidencing guided contact hours (paragraph 5 above) where officials worked with providers to develop a solution and to address existing weaknesses in financial controls.
- 18** When the Audit Committee made its recommendations in 2007, the Assembly Government had no formal process for applying lessons from audit across its whole business. The Assembly Government is currently going through organisational change, with a streamlined management structure, which is intended to ensure a more joined-up approach than in the past. The Assembly Government intends that new arrangements to support Departments in key areas like audit, governance and management processes will facilitate improved shared learning across the organisation, including lessons learned from audit reports.

## Recommendations

- 1** Financial controls at Work Based Learning providers have improved significantly. Nonetheless, in 2008/09 there has been a rise in the number of 'except for' opinions recorded by the PAGS. Many of these were due to providers not updating their systems to reflect changes to the Work Based Learning programme specification. Providers in our survey were generally positive about the Assembly Government's communications regarding the programme specification, but clearly some have not responded appropriately to recent changes. The Assembly Government should conduct a brief review of how it communicates changes to the programme specification to providers, in order to identify opportunities for further improvement.
- 2** The Assembly Government experienced difficulties applying aspects of a new payments framework to Work Based Learning, specifically the evidencing and recording of guided contact hours, and developed a temporary solution by working with providers. The Assembly Government told us that a new solution will be required when the contracts are renewed in 2011. The Assembly Government should develop a practicable basis for payments in Work Based Learning in good time for the new basis to be tested before they are needed in 2011.
- 3** The Assembly Government's performance measurement framework rightly focuses on delivering outcomes for learners. But there is a risk that such a focus may encourage providers to pick the most able learners who are most likely to succeed, at the expense of those who may have a greater need for training. The Assembly Government has recently commissioned a toolkit to measure

'distance travelled' by learners, which could provide more detailed evidence on learners' progress in addition to formal outcomes such as achieving qualifications and moving into employment. The Assembly Government should encourage providers to adopt the toolkit and further develop measures of 'distance travelled' by learners. These measures should then be incorporated into performance measurement reports, to assure providers that they will not be unduly penalised for taking on learners from more disadvantaged backgrounds.

- 4** In 2007, the Assembly Government had no formal process for sharing lessons from audit and other evaluations across the Assembly Government. The Assembly Government is introducing new arrangements for supporting the management of its business that are intended to enable greater cross-departmental working. The Assembly Government should ensure that the new Director General Operations Teams:
  - a** capture key lessons from audit and other evaluation work and disseminate them across departments; and
  - b** help apply lessons learned from audit through changes to organisational plans, guidance and management processes.

# Part 1 - Financial control at Work Based Learning providers has improved considerably as a result of the Assembly Government's strengthened arrangements

**1.1** The Assembly Government has contracts with 86 providers to deliver Work Based Learning programmes, with a total contract value of around £121 million a year (see **Box 1**). In 2006, the Audit Committee expressed serious concerns about the poor financial controls at many Work Based Learning providers and made five recommendations aimed at improving control and audit arrangements. This part of the report examines whether the Assembly Government has responded effectively to those recommendations. It concludes that financial control at providers has improved considerably as a result of the Assembly Government's strengthened arrangements.

## Financial control at providers is vastly improved and recent weaknesses arising from changes to funding arrangements are being addressed

**The number of qualified audit opinions has fallen significantly, particularly since 2005/06**

**1.2** The Assembly Government pays Work Based Learning providers on the basis of data that providers enter onto the Lifelong Learning Wales Record. The PAGES carries out audits of the financial controls at providers, focused on the accuracy of the data entered onto the Lifelong Learning Wales Record. The first stage undertaken by PAGES is an examination

### Box 1 - Some key features of Work Based Learning in Wales

The Assembly Government funds 86 providers to deliver Work Based Learning. There are two key strands to the Work Based Learning programme in Wales:

- a** Modern Apprenticeships, which combine a range of different component courses within a 'Framework'. There are two main types: Foundation Modern Apprenticeships which last up to two years and lead to an NVQ level 2 qualification; and Modern Apprenticeships which last up to four years and lead to an NVQ level 3 qualification. The Assembly Government also funds Modern Skills Diplomas which lead to an NVQ level 4 qualification.
- b** Skillbuild, which aims to help learners develop the skills and confidence needed to move on to further training, such as a modern apprenticeship, or to gain employment.

Contracts for Work Based Learning are let through a competitive procurement process. The last round of tendering took place in 2007, and the next round will be in 2011. Current Work Based Learning providers include public bodies, such as further education colleges, and private training companies.

Around 20 per cent of the expenditure on Work Based Learning comes from European Union structural funds.

The Assembly Government has a single database – the Lifelong Learning Wales Record, which holds all information on Work Based Learning, and other post-16 education (apart from sixth-form and Higher Education). All providers have direct access to the Lifelong Learning Wales Record. The Assembly Government pays providers on the basis of data entered onto the Lifelong Learning Wales Record.

of the underlying systems of control to check whether providers can demonstrate that their systems for recording and entering data are sound. The second stage of PAGES' audit examines whether public funding has been used for its intended purpose, in line with the terms and conditions of the provider's contract, through detailed testing of the data entered on to the Lifelong Learning Wales Record. Once the data checks are complete the PAGES issues two audit opinions covering the systems of control and the use of funds. These can be:

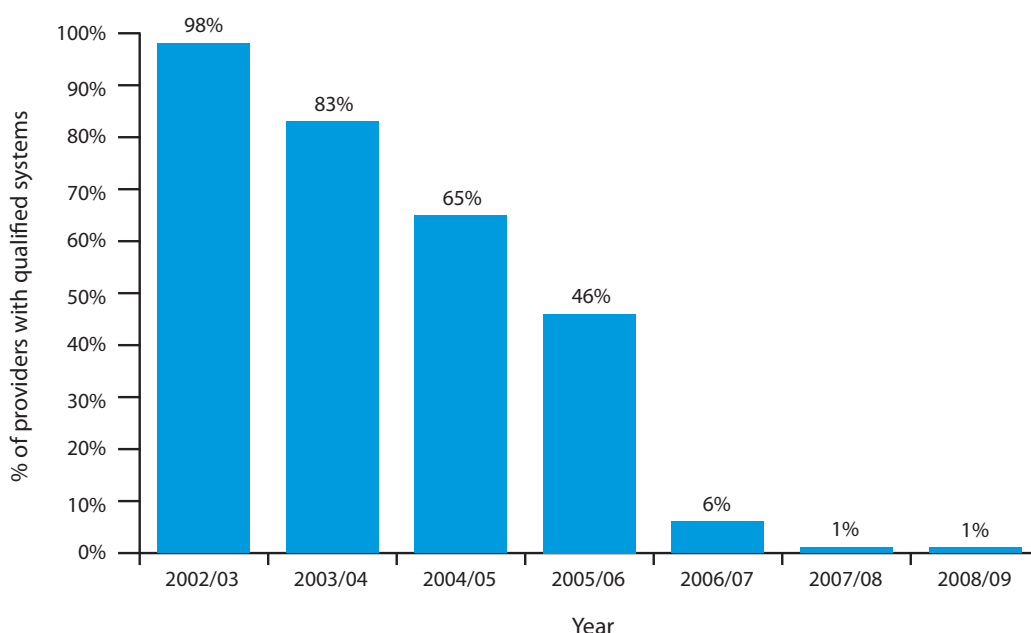
- a an 'unqualified' opinion, in which case it is satisfied with the robustness of the data or system;
- b an 'except for' opinion, where the PAGES is largely satisfied but has identified single areas of concern that need to be addressed; or

- c a 'qualified' opinion, where the PAGES is not satisfied with the robustness of the data or the system.

**1.3** The Audit Committee's 2006 report expressed concern about the poor state of financial control at many Work Based Learning providers, as evidenced by the high level of qualified opinions. It was also concerned that many providers had failed to address the fundamental weaknesses that led to qualified opinions, despite those weaknesses being known for many years.

**1.4** Figure 1 shows that there has been a significant and welcome reduction in the rate of qualified systems of control since 2002/03. By 2007/08 just one provider had a qualified opinion from the PAGES on the system of control. This is a significant achievement and clearly demonstrates that there has been a dramatic improvement over the past six years.

**Figure 1 - Qualified systems 2002/03 to 2008/09**



Source: Wales Audit Office's review of PAGES Annual Reports

It is notable that major progress was made in the academic year 2006/07; the year following the publication of the reports of the Audit Committee and the Auditor General.

**1.5** Figure 2 shows that there has been a similarly positive reduction in the rate of qualified use of funds. This is a significant achievement and provides assurance that funding is being properly applied to support the Assembly Government’s objectives and requirements for Work Based Learning. Again, it is clear that significant progress was made in 2006/07.

**1.6** Although the total number of qualified opinions has been falling, there has been a recent increase in the number of ‘except for’ opinions that the PAGS issued (Figure 3). In 2007/08 PAGS issued ‘except for’ opinions in respect of five providers; in 2008/09 this had risen to 16. The most common problems that the PAGS identified were due to providers not

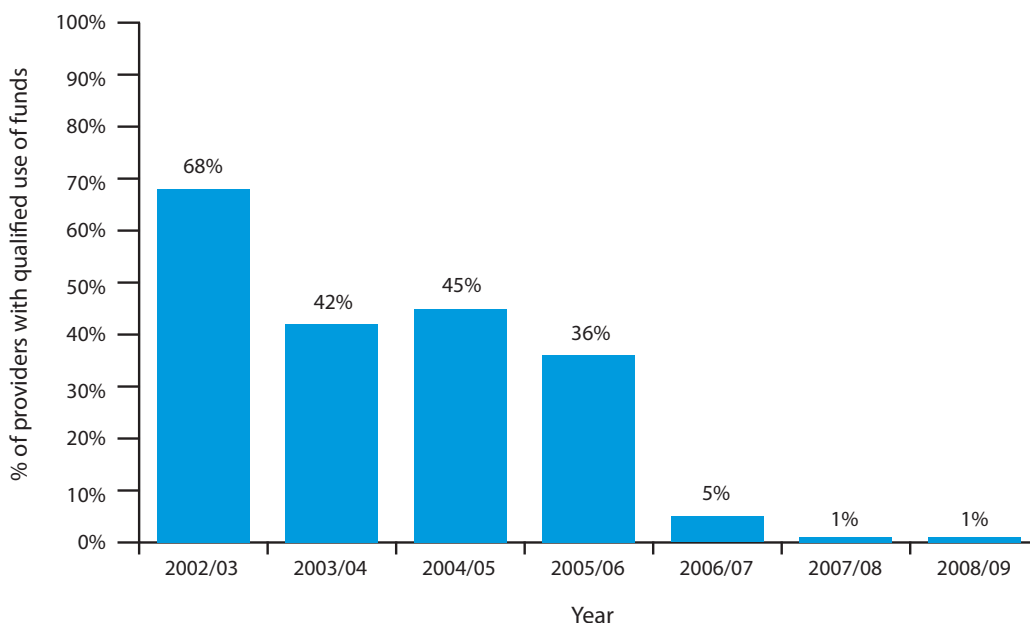
updating their systems to reflect changes to the programme specification, including failure to satisfactorily evidence and record the number of guided contact hours (paragraphs 1.7 to 1.13) and not updating the system to reflect changes to travel costs.

**Widespread weaknesses in 2007/08 around the evidencing and recording of guided contact hours as part of a new funding mechanism were quickly addressed**

The Assembly Government introduced the NPFS for sound reasons but without anticipating the difficulties that providers would have in evidencing and recording guided contact hours in the workplace

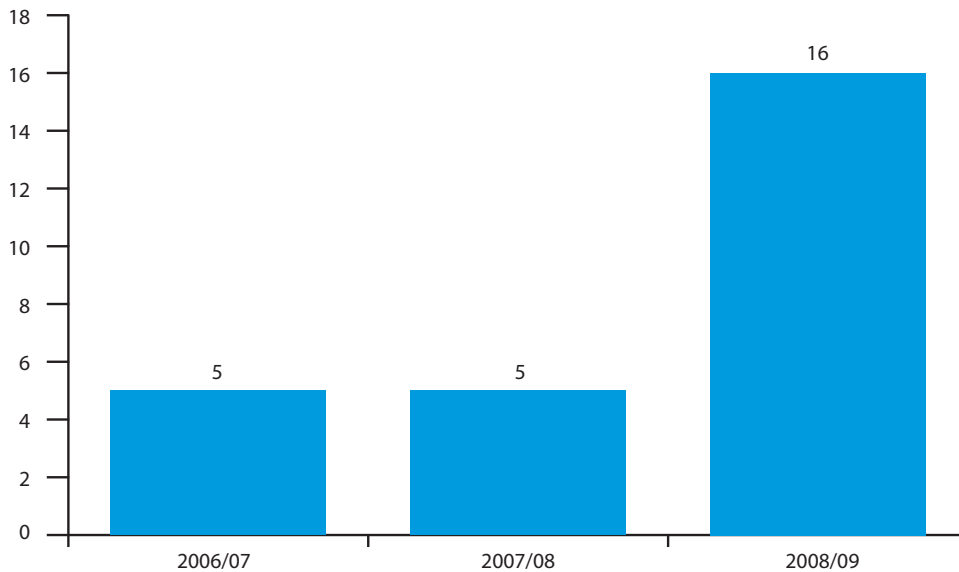
**1.7** Through the introduction of the National Planning and Funding System (the NPFS) in 2007, the Assembly Government changed the way in which it funds Work Based Learning. The NPFS was already used as a basis for

**Figure 2 - Qualified Use of Funds 2002/03 to 2008/09**



Source: Wales Audit Office’s review of PAGS Annual Reports

**Figure 3 - Number of 'except for' opinions recorded by PAGS**



**Note**  
Prior to 2006/07 the PAGS did not issue any 'Except for' opinions because where providers had weaknesses they tended to be multiple and the PAGS therefore issued a qualified opinion

Source: Wales Audit Office's review of PAGS data

funding post-16 education. The Assembly Government chose to roll out NPFS across Work Based Learning providers for sound reasons:

- a** to address regional variations in the level of funding to providers for delivering the same courses;
- b** to put Work Based Learning on an equal footing with other post-16 education sectors;
- c** to ensure that funding better reflected the actual costs of delivering Work Based Learning; and
- d** to provide more regular and predictable income for providers.

**1.8** Although the Assembly Government consulted with providers on the introduction of the NPFS, it did not anticipate the problems that some providers would experience with a new requirement to evidence and record 'guided contact hours' (Box 2).

**1.9** Once the system was introduced, providers quickly told the Assembly Government that there were difficulties applying the NPFS, which had been designed for classroom based learning, to Work Based Learning:

- a** most Work Based Learning is done on a one-to-one basis, which is more resource intensive for the provider than classroom learning where many learners can be taught at the same time by one instructor;

## Box 2 - Key changes introduced by the NPFS

### Credit Equivalent Units and Guided Contact Hours

The NPFS introduced a common contract currency, known as Credit Equivalent Units (CEU), across all post 16 learning. Each CEU has a set financial value (£23.81 in 2007/08). The total number of CEUs for each Work Based Learning course is calculated on the basis of a formula that takes account of several factors, including the number of learning hours, as well as 'uplifts' for specific elements, such as: whether it is a priority subject where there are skill shortages; provision through the Welsh language; and whether the learner is from a deprived area.

Each Work Based Learning qualification has a set number of learning hours that the learner is expected to complete. Under the NPFS, the learning hours are converted into CEUs through a formula. Every 10 learning hours is equivalent to one CEU. So, for example, if a course requires 100 learning hours it is worth 10 CEUs, plus any further 'uplifts'. Each 10 hours of learning is split, with six hours of 'guided contact hours' delivered by the provider and four hours of other learning in the learner's own time. For example, if the course involves 100 learning hours, the provider has to show that it has delivered 60 'guided contact hours'.

- b** one-to-one guided learning is more intensive for the learner than classroom learning, which means that they are able to progress further from each hour of learning than they would in a classroom setting; and
- c** providers expressed concern that the NPFS encouraged them to focus on individual components of programmes in order to evidence the required guided contact hours for each, rather than take a more holistic approach to delivering the overall framework.

After some initial problems, the Assembly Government is addressing the difficulties with evidencing and recording guided contact hours under the NPFS

- 1.10** Providers' concerns about the applicability of the NPFS were reflected in practical difficulties in updating the Lifelong Learning Wales Record and claiming payments. One provider in our survey told us that it had initially been under-recording guided contact hours and that this had resulted in lower than expected payments. On the other hand, PAGES' investigations (paragraph 1.12 below) identified the risk that many providers had actually overstated the number of guided contact hours. Providers told the Assembly Government that action was needed to resolve the difficulties around recording and evidencing guided contact hours.
- 1.11** In response to the emerging problems with the guided contact hours element of the NPFS in Work Based Learning, the Assembly Government set up a working group, which included providers, to develop a solution. With the working group, the Assembly Government agreed to introduce an option that would allow providers to opt out of the requirement to provide evidence of guided contact hours. Instead, they would be paid on the basis of a formula, which guaranteed that they would receive at least 90 per cent of the income that they would have received under the previous funding arrangements. This approach was implemented by adding an additional data field to the Lifelong Learning Wales Record. Although providers would not have to evidence guided contact hours, they would still be required to demonstrate ongoing learning through existing requirements for evidence of regular learner progress reviews.



- 1.12** The Assembly Government expected that most providers would take up the formula based option. However, by June 2008, 10 months into the contract year, only 35 per cent of providers adopted this approach. The PAGES identified the risk that some providers might overstate the number of guided contact hours that they had delivered. It carried out a preliminary assessment, and in July 2008 identified three providers that had failed to record guided contact hours properly and a further 38 providers who may have overstated the number of guided contact hours. The PAGES estimated that as much as £2 million of funding was at risk.
- 1.13** The PAGES subsequently worked with suppliers to rectify and resolve problems within the contract year. The PAGES wrote to each of the providers it identified as being at risk, requesting that they revisit data to ensure that the guided contact hours recorded were accurate and requesting them to transfer to the alternative option if they are unable to evidence guided contact hours. Following this work, many more transferred to the alternative option, which meant that any overpayments were recovered through adjustments to the Lifelong Learning Wales Record. Nonetheless, some problems remain: in its 2008/09 annual report, the PAGES has recorded 'except for' opinions in respect of four providers because of weaknesses in recording guided contact hours.
- 1.14** The Assembly Government told us that the formula based option is a temporary solution to the problem of guided contact hours. It intends to develop a new basis for payments for the next round of contracting in 2011.

## **The Assembly Government has clearly set out the controls that all providers must have in place and taken steps to explain them although there were initially weaknesses in new guidance around guided contact hours**

**All controls are set out in programme guidance, which is now more accessible to providers through online provision**

- 1.15** In order to receive payments, providers must demonstrate that they meet certain criteria. There is extensive guidance available to providers on the Assembly Government's dedicated Work Based Learning site. The main requirements and criteria for Work Based Learning are set out in the programme specification. The contract between the Assembly Government and providers clearly refers to the programme specification. The financial controls over the programme derive from the programme specification and contract, including learner induction and eligibility, learning delivery and attainment, as well as other aspects such as travel costs. The PAGES has produced additional guidance clearly setting out the evidence that providers must produce in order to show that they are conforming to the programme specification and have appropriate controls. The providers we spoke to in our survey were generally happy with the quality of the guidance, and some commented positively on the improved accessibility through the internet site.

## **There were initially weaknesses in guidance on evidencing and recording guided contact hours which the Assembly Government subsequently addressed**

**1.16** When the PAGS identified some providers' problems in evidencing and recording guided contact hours (paragraph 1.10) it reported that weaknesses in the programme specification had increased the risk that providers would fail to record the guided contact hours correctly. In June 2008, the Assembly Government issued revised guidance to providers, clarifying the expectation that providers would need to provide evidence of guided contact hours. However, the PAGS remained concerned that because the guidance was issued 10 months into the contract year, providers might dispute any funding recovery that resulted as a consequence of audit work. This risk did not materialise, and most errors were managed through adjustments to the Lifelong Learning Wales Record.

## **The PAGS has provided training and support to some smaller providers and external auditors of larger providers**

**1.17** The PAGS has provided further training and advice in support of the general guidance that is available. The PAGS has provided formal and informal training to providers, particularly the smaller providers. In 2008 the PAGS ran two workshops on the audit process, focusing in particular on the evidence requirements to support payments. The PAGS told us that it was pleased that around 85 per cent of providers attended these workshops.

**1.18** Several of the providers we surveyed reported that in recent years PAGS had made greater efforts to explain the audit process, what evidence would be expected, and to clarify any queries about the guidance.

One provider reported that although it had not received formal training on the audit requirements, it had received softer coaching and support from the PAGS.

**1.19** The PAGS has also provided training for the independent external auditors that, prior to 2008-09 academic year, audited the Lifelong Learning Wales Record data for large providers (those providers with an annual contract valued at £1 million or more). PAGS has provided annual training sessions for external auditors in north and south Wales. The PAGS reported that in some instances, providers themselves attended these training sessions so that they could familiarise themselves with the audit requirements.

## **The Assembly Government has strengthened its approach to financial controls**

### **The PAGS' risk based approach to Work Based Learning audit reflects good practice and will now be rolled out across all providers**

The PAGS has a sound risk-based approach to the level of Work Based Learning audit work it carries out at each provider

**1.20** The PAGS adopts a sound risk-based approach to the level of work it carries out at Work Based Learning providers. Firstly, the PAGS assesses the level of risk with each provider, taking account of issues such as previous audit findings at that institution and its general financial health, and ascribes a rating: low; medium or high. The PAGS then takes account of the financial value of the contract to determine the frequency of systems and data audits, and the degree of work to be carried out by the PAGS. This risk based approach is recognised as good practice, as set out for example, in HM Treasury guidance<sup>2</sup>.

<sup>2</sup> HM Treasury 2005, Good Practice Guidance – Delivering Audit Assignments: A Risk-based Approach

New arrangements for larger providers are intended to reward good performance, while managing risks to public money

**1.21** Prior to the 2008/09 contract year, large providers were required to have their Work Based Learning data audited by an independent external auditor. From 2008/09 onwards this audit work has been carried out by the PAGES on the risk basis outlined above. The PAGES introduced this change for a number of reasons:

- a** New audit requirements for the EU funded elements of Work Based Learning place a greater emphasis on auditing systems of control, where PAGES has particular expertise and experience.
- b** The PAGES told us that the revised approach is more cost effective for providers.
- c** The PAGES told us that it can reduce the work that providers have to carry out to support the external audit. The issue of workload to support the audit was a concern for some of the large providers we surveyed.

**1.22** The Assembly Government also intends that the revised approach will reflect broader policy goals of rewarding good performance through greater freedom. Providers that the PAGES assesses to be lower risk because they have demonstrated good financial management and sound systems of control will have less frequent and less intensive audit work. As a result, providers that have performed well can benefit from a more light touch audit regime. Although the new regime will be more light touch for low risk providers, the PAGES will still carry out regular audit work to verify that systems remain satisfactory and that risks to public money are being managed.

**PAGES has developed a more proactive approach to supporting providers in improving their systems**

**1.23** PAGES told us that the improvement in financial control at providers means that they can refocus their efforts on getting to the bottom of problems at providers, rather than simply issuing a qualified opinion. Through its audits, the PAGES will now spend more time drilling down to the root of problems, and helping providers to develop solutions. One of the providers we surveyed referred to PAGES' more detailed auditing as 'unravelling things right back to the end of the string'. Another provider reported that the PAGES had used the audit process to help them to improve their systems and made suggestions for making better use of the Lifelong Learning Wales Record to simplify processes.

**The PAGES makes effective use of self-audits undertaken by providers to directly manage risk and incentivise improvements**

**1.24** Where the PAGES identifies any recurrent problems with providers' systems or data, it requires the provider to undertake a 'self-audit'. These audits require the provider to fully review the data related to a particular area of concern going back in time to the start of the problem. The self-audits are onerous; the PAGES intends that they should incentivise providers to get things right in the first instance. Providers in our survey who had been through a self-audit were positive about the process. One told us that although it had 'grumbled' at the time, the process had in fact been very helpful. Another told us that the self-audit had helped them to better understand the Assembly Government's expectations in terms of financial controls and provided an opportunity for managers to better understand their system and to address the weaknesses.

## **The PAGES has used the escalation process to manage risk more effectively**

**1.25** Where the PAGES identifies risks to public money because of weaknesses in the financial controls, providers are expected to respond by improving their systems. If the PAGES decides that providers have not made acceptable progress, or are failing to carry out the self-audits on time, it will place providers on audit escalation. Where providers are placed on audit escalation the PAGES' Head of Governance and Assurance will hold a meeting with the providers' Chief Executive and Finance Director and agree an action plan to address the weaknesses. Also, the provider's funding is frozen, so it cannot bid for any additional funding. Since 2005, 10 providers have been placed on audit escalation. The PAGES told us that it is willing to terminate the contract of any provider that fails to improve after being placed on escalation. To date, all providers have met the PAGES' requirements following audit escalation, and the Assembly Government has not had to terminate any contracts on these specific grounds.

## **Improved pre-payment data testing on the Lifelong Learning Wales Record helps to detect and prevent errors that would otherwise lead to incorrect payments**

**1.26** In 2007/08, the Assembly Government introduced new pre-payment data testing. Before payments are made, the Assembly Government runs a series of checks to identify any anomalies in the data entered on to the Lifelong Learning Wales Record, and to ensure that learners are eligible within the programme specification. These checks identify, for example, whether learners are registered on more than one course or with more than one provider, which they should

not be, or whether learners for Skillbuild are registered unemployed, as required. Without identifying such anomalies, there is a risk that providers will be paid for ineligible activity. Each provider is sent a report setting out the discrepancies in the data, which they are required to resolve and update through the Lifelong Learning Wales Record.

## Part 2 - The Assembly Government has used the re-tendering process and its Provider Performance Reviews to drive up the quality of Work Based Learning, and plans to address concerns about perverse incentives through new quality arrangements

- 2.1** In its 2006 report, the Audit Committee was concerned at the risk that weaknesses in financial controls were symptomatic of wider problems with the quality of Work Based Learning provision. It made two recommendations aimed at using the contract arrangements and performance management to drive up the quality of Work Based Learning. This part of the report examines whether the Assembly Government has responded effectively to those recommendations. It concludes that the Assembly Government made good use of the retendering of contracts and performance management to drive up the quality of Work Based Learning. The Assembly Government intends that future arrangements will deliver further improvements and address concerns about perverse incentives within the current performance management framework.
- a** participation and responsiveness, which covers providers' responsiveness to learner, employer and community needs; and their strategic approach to equality and diversity issues;
  - b** learners' experiences and achievements, which focuses particularly on achieving outcomes for learners – completion of frameworks for Modern Apprenticeships and movement into employment or learning for Skillbuild; and
  - c** planning and management, which covers the extent to which providers have embedded quality management processes within their organisation.
- 2.3** The PPR scores have improved significantly across all three performance areas over the past four years. **Figure 4** shows that there has been a sustained improvement for learners. In 2005 PPR revealed 'some' or 'serious' concerns at 58 per cent of providers but by 2009 this had fallen to just four per cent.

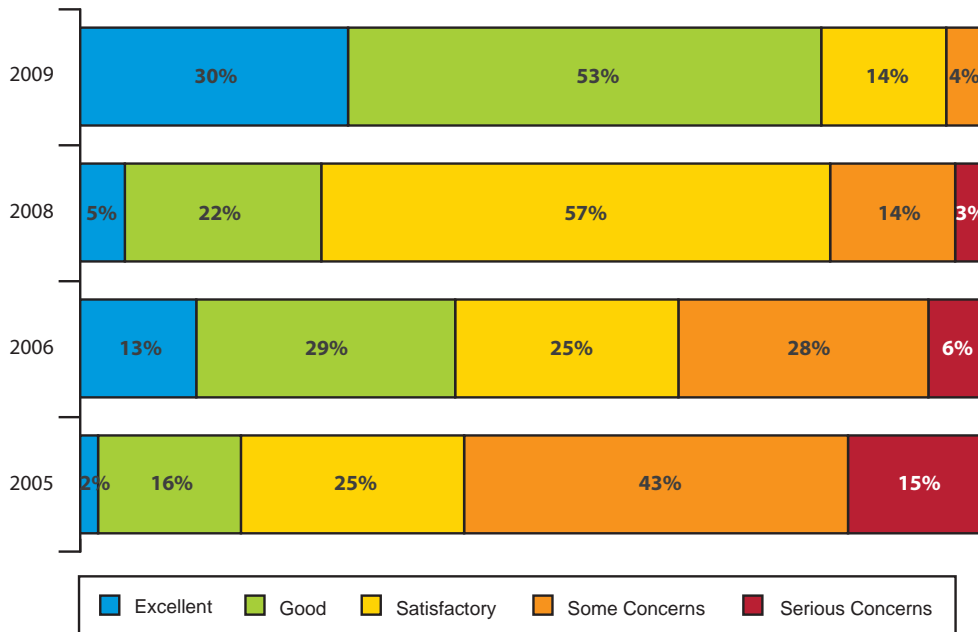
### The quality of Work Based Learning provision has improved

#### PPR reports show a continuous improvement

- 2.2** The Assembly Government carries out an annual review of performance, through its Provider Performance Review (PPR) process. The PPR forms part of the contractual arrangement between the Assembly Government and the providers, and the review looks at three performance areas:
- 2.4** Estyn inspects providers once every six years. Estyn's annual reports provide independent evidence of continuous improvement at providers. In 2004/05 Estyn found that just 14 per cent of providers had good or better standards of learning achieved, while 28 per

#### Estyn reports provide independent evidence of continuous improvement

**Figure 4 - PPR scores for learners' experiences and achievements show significant improvement**



**Note**  
The Assembly Government did not carry out a PPR in 2007 because of a detailed evaluation of the PPR process itself.

Source: Wales Audit Office's review of PPR scores

cent had shortcomings in important areas or many shortcomings. By 2007/08 the situation had improved considerably: Estyn found that 85 per cent of providers had good or better standards of learning achieved, with 34 per cent classed as having outstanding features. In 2007/08 Estyn found that no providers had shortcomings in the standards of learning achieved.

## The Assembly Government made use of the retendering process in 2007 to drive up standards and to terminate funding to the worst providers in terms of quality and financial management

**2.5** In 2007, the Assembly Government retendered for all of the Work Based Learning provision contracts. In line with the recommendation of the Audit Committee, the Assembly Government used the information it had gathered from audit, Lifelong Learning Wales Record and PPR to inform its decisions. The Assembly Government required all bidders to submit detailed bids,

based on the PPR categories and scores, which included financial management at that time. The Assembly Government required all new bidders to provide evidence of how they would meet the standards required by the PPR.

- 2.6** The Assembly Government required existing providers with poor PPR scores to produce an action plan demonstrating how they would improve their performance. The regional teams within the Department for Children, Education, Lifelong Learning and Skills (DCELLS) worked with providers to develop and monitor the action plans after the tender process. The Assembly Government introduced a six-month probation period for all successful providers.
- 2.7** The Assembly Government did not renew the contract of 13 existing providers based on either the quality of learning provision or financial management. However, five of these providers continued to provide Work Based Learning as subcontractors to successful bidders. The Assembly Government told us that it is content with these arrangements, arguing that the key weaknesses have been addressed by the more effective performance and financial management regimes in the providers overseeing the subcontractors.
- 2.8** Our survey of a sample of providers found that almost all thought that the Assembly Government had used the retendering process to drive up quality. Many providers reported that the tender specification made clear that the Assembly Government was prioritising quality and that if the provider could not meet those standards it would not get the contract. However, some providers told us that the Assembly Government had not gone far enough in 2007; they thought that too many providers had their contracts renewed despite poor performance.

## **The Assembly Government has used performance management and inspection arrangements to drive up the quality of learning and plans to address some providers' concerns about perverse incentives through a new Quality and Effectiveness Framework**

### **The Assembly Government makes good use of PPR and inspection to drive up quality**

- 2.9** The Assembly Government makes good use of the PPR process. The existence of a clear performance framework sends a clear signal to providers that the Assembly Government expects certain quality standards to be met. Almost all of the providers in our survey sample thought that PPR had driven up quality standards. Some specifically mentioned their own organisation's progress and improving scores, which they attributed to PPR providing a clear framework around which to base improvement.
- 2.10** The Assembly Government has taken steps to improve the PPR process in recent years. In particular it has provided clearer guidance to providers about what they can expect from PPR, and how to produce the self-assessment that forms the starting point for the PPR. Some of the providers in our sample survey told us that the PPR process had improved in recent years. Some providers thought that the Assembly Government was less clear about what it expected from the PPR process and providers in the first few years, but that it was now much clearer in its guidance and communications.

**2.11** Regional DCELLS teams follow up PPR with tailored support for individual providers. Each organisation receives its PPR scores and a report. Where there are areas requiring further improvement, the regional teams work with the providers to develop an action plan, and monitor progress against that plan. If providers do not achieve a 'satisfactory' score for 'learners' experiences and achievements' their funding is frozen, which means that they cannot bid for additional work, over and above their contract. Some of the providers told us that this had provided a hard edge and a 'fear factor' which focused providers' minds. The Assembly Government has warned providers that in future 'satisfactory' scores will no longer be acceptable – providers will have to achieve 'good' or 'excellent' if they are to avoid having their funding frozen.

**2.12** Where providers fail to make acceptable progress against the action plan to address poor PPR scores, the Assembly Government can place the provider on escalation, in which case they receive a warning and additional monitoring. If progress continues to be unsatisfactory the contract can be terminated. The Assembly Government told us that escalation is used very rarely because providers generally make progress once informed of poor PPR scores. Nevertheless, the Assembly Government has made use of escalation on the grounds of poor performance and one provider has had its contract terminated on this basis.

**2.13** The Assembly Government also makes use of Estyn inspections to inform its performance management. The Assembly Government told us that providers that fail an Estyn inspection are subjected to more rigorous monitoring by the regional team. Where a provider fails an Estyn re-inspection it will terminate its contract. To date, two providers have failed

Estyn re-inspections, in one case the Assembly Government did not renew the provider's contract in the 2007 re-tendering round, and in the other it terminated the provider's contract.

### **The Assembly Government is not yet making full use of PPR to identify and address common problems and share good practice**

**2.14** Through the PPR reviews and contacts with providers, the Assembly Government will have developed a good understanding of the good practice that exists among providers. The Audit Committee recommended that the Assembly Government should make use of the PPR reviews in particular to identify common weaknesses and share good practice. The Assembly Government told us that it has not yet made full use of the opportunities to share good practice. At present, PPR reports and the follow-up work by the regional teams have focused on individual organisations. Although the Assembly Government produces a summary of PPR after every round, the analysis is generally quite broad and does not identify and disseminate specific examples of good practice that help improve quality.

### **The Assembly Government is using benchmarking to provide a more detailed analysis of provider performance and to encourage shared learning**

**2.15** The Assembly Government carries out benchmarking, with the support of a consultancy firm, which it intends will support shared learning. This benchmarking work involves a detailed analysis of Lifelong Learning Wales Record data, combined with the underlying data that goes into the overall PPR scores. Each provider gets a detailed breakdown of their own performance, along with anonymised data about other providers,



so that they can compare performance. The benchmarking data includes a value for money element, which looks at the results delivered compared to income and costs.

- 2.16** The Assembly Government intends that the benchmarking work will provide a basis for shared learning between providers. The Assembly Government told us that this is not yet happening on a large scale. It has been doing some work with providers in the Further Education sector to share learning. Through our audit work, the Wales Audit Office has uncovered local examples of shared learning, where providers in north Wales have collaborated to produce streamlined documentation for Work Based Learning.
- 2.17** Also, the Assembly Government has commissioned the National Training Federation for Wales (NTFW) to host regional benchmarking clubs, which are currently being developed. Working with the NTFW, the Assembly Government has promoted some examples of good practice through case studies at training forums. The Assembly Government told us that it faces a challenge in getting private providers in a competitive market for Work Based Learning to share the good practice that gives them a competitive advantage. However, the Assembly Government told us that the Work Based Learning providers' network is now sufficiently stable and mature to make shared learning a realistic objective.
- 2.18** The PPR rightly emphasises the importance of delivering outcomes for learners – completing qualifications and moving into employment. However, some providers in the Wales Audit Office survey told us that the strong focus on outcomes could create a perverse incentive to 'cherry pick' learners. Providers expressed similar views in the Assembly Government's 2007 evaluation of PPR. Providers argued that PPR incentivised them to choose those learners that were most likely to complete the qualification or move on to employment. In some cases, that might mean turning down more high risk learners, even though they have the greatest need for the training.
- 2.19** The Assembly Government told us that it understood providers' concerns, and that these risks were mitigated to some extent. In the case of modern apprenticeships, the Assembly Government told us that it believes it is right that providers select people with the skills and abilities needed to complete the course, which can be quite demanding. The Assembly Government told us that it recognises the concerns in respect of Skillbuild, and has put in place some measures to mitigate this risk through a guarantee that all learners referred through Careers Wales or JobCentre Plus should get a place. But providers are constrained by their contract value and some provide specialist training, so they cannot accept all learners. The Assembly Government told us that these factors might mean some providers may cherry pick those likely to achieve outcomes and contribute to good PPR scores, but it does not have evidence of specific examples.

**2.20** The Assembly Government is introducing a new Quality and Effectiveness Framework to replace PPR, which will be rolled out in phases from autumn 2009. The Assembly Government intends that the new framework will continue to have a focus on delivering outcomes for learners. However, in recognition of the concerns of providers, the Assembly Government plans to introduce 'soft' measures of the 'distance travelled' by learners, which will enable providers to capture the progress that learners have made, particularly in Skillbuild, even if they do not progress into employment or further education. The Assembly Government has commissioned a toolkit identifying ways of measuring the 'distance travelled' by learners.

## Part 3 - The Assembly Government has not systematically applied the lessons learnt from earlier problems with Work Based Learning across the organisation but new management arrangements are intended to enable better shared learning in the future

**3.1** Some of the key lessons from the historical weaknesses in Work Based Learning, particularly those associated with the roll out of the Lifelong Learning Wales Record, have resonance for other parts of the Assembly Government. In its report in 2006, the Audit Committee made two recommendations aimed at applying lessons learnt across the Assembly Government, in order to try to avoid similar such problems in future projects. This part of the report examines whether the Assembly Government has responded effectively to those recommendations. It concludes that the Assembly Government has not systematically applied the lessons learnt from earlier problems with Work Based Learning across the organisation, but new management arrangements are intended to enable better shared learning in the future.

### **DCELLS officials identified the lessons from the problems with Work Based Learning, but they were not systematically applied across the Assembly Government**

**3.2** In its response to the Audit Committee's report, the Assembly Government reported that it would put a paper to its Senior Business Team, comprising the Permanent Secretary and Senior Managers, outlining the key lessons learnt. In February 2007, officials from DCELLS submitted the paper to that team. The paper set out the rationale for the Audit Committee's recommendation to ensure providers participate in implementation arrangements and incorporate compulsory training into projects similar to the rollout of the Lifelong Learning Wales Record. In line with the Audit Committee's recommendation, the paper also correctly identified the key lessons that could be applied to other similar projects:

- a** comprehensive data 'exception' reports;
- b** a robust regime of validation checks;

- c regular feedback and structured communication with providers prior to and during the implementation phase;
- d clear communication of the standards to which providers are expected to perform (preferably within contract documents);
- e targeted support and assistance to 'problem' providers;
- f adequate parallel running of the new system alongside the existing system; and
- g robust probationary arrangements for new providers.

**3.3** However, the Agenda for the meeting shows that the paper was submitted for the Senior Business Team to note the contents, rather than as a paper for decision or action. The Assembly Government was unable to provide evidence that the lessons had been applied more widely. DCELLS officials told us that, from their perspective, the Audit Committee's recommendation had been discharged because they had disseminated the lessons to senior managers. Nevertheless, the Audit Committee clearly recommended more than disseminating lessons; they should be applied and incorporated into project plans for projects of a comparable size or nature. The Assembly Government was unable to trace whether its general approach to project planning was amended, or whether any specific project plans were developed to specifically reflect the Audit Committee's recommendation.

**3.4** There is evidence from developments in Work Based Learning that DCELLS itself has learnt lessons around training and engaging providers. The PAGS has provided ongoing training on audit requirements, which most, though not all, providers have attended. And when providers identified concerns about

payment on the basis of guided contact hours under the new funding regime (see **Part 2**), DCELLS was able to resolve problems relatively quickly because it worked closely with providers to ensure they could participate in developing an appropriate solution. Similarly PAGS was able to resolve widespread problems with the actual recording of guided contact hours by engaging with providers to ensure that they reviewed their data and systems.

## **The Assembly Government intends that its new Director General Operations Teams should support better learning of lessons and sharing of good practice across its departments**

**3.5** Assembly Government officials told us that when the Audit Committee made its recommendations in 2006 there were no formal arrangements in place for sharing audit lessons across the Assembly Government. When the Audit Committee made recommendations aimed at learning lessons, the Assembly Government would respond in a variety of ways. Generally the response would be taken forward by one part of the organisation. The Assembly Government's Corporate Governance Unit monitored and reported against any outstanding recommendations through working individually with each of the 18 Business Units that supported the various Departments and Divisions.

**3.6** The Assembly Government is currently going through significant organisational change. The Permanent Secretary has created a streamlined management structure with a new Strategic Delivery and Performance Board,

new Director General (DG) roles and a new Operations Group appointed to drive improvement and efficiency in the management of the organisation's business. One of the key goals of the changes is to encourage greater collaboration and shared learning across the organisation.

**3.7** To support the streamlined management structure, the Assembly Government is introducing a more streamlined approach to its arrangements for supporting the management of its business. The 18 Business Units will be reconfigured into six DG Operations Teams: one for each of the four Directors General with Additional Accounting Officer responsibilities; one for the Chief Executive of the NHS; and one for corporate services. The new teams will provide support in key areas, including:

- a** financial management and corporate governance;
- b** programme and project management;
- c** business planning;
- d** human resource management; and
- e** change management.

**3.8** One of the key features of the new arrangements is the introduction of a single knowledge base. The Assembly Government intends to bring together key sources of information and knowledge that were previously held by different parts of the organisation. The single knowledge base will include financial and performance management information, as well as information relating to audit and controls. The Assembly Government thereby intends that its DG Operations Teams will have access to a common data set that includes lessons learnt from audit.

**3.9** The Operations Group, supported by the new DG Operations Teams will have a role in developing and supporting key organisational processes. There is therefore scope for the DG Operations Teams to help implement audit recommendations and lessons learned by making changes to processes and to guidance. Assembly Government officials told us that in future, the DG Operations Teams are intended be more proactive in picking out the lessons from audit work that have relevance to the wider organisation and disseminating and applying those lessons more widely.

## Appendix 1 - Methods

- 1 Interviews:** We carried out interviews with Assembly Government officials from the PAGS, DCELLS Quality and Effectiveness Branch, and the Assembly Government's Business Development Division.
- 2 Document Review:** We reviewed a range of Assembly Government documents relating to the audit process, audit results, and performance measurement. We also reviewed Estyn inspection reports.
- 3 Survey of a sample of providers:** We carried out a telephone survey of eight Work Based Learning providers. The sample was selected to reflect the diversity of sizes and geographical spread of Work Based Learning provision.