

Annual Report and Accounts 2003-04



ADULT LEARNING
INSPECTORATE

Annual Report and Accounts 2003-04

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Learning and Skills Act 2000

Account, prepared pursuant to, Schedule 6, paragraph 14(4)(b) of the Learning and Skills Act 2000, of the Adult Learning Inspectorate, for the year ended 31 March 2004, together with the report of the Comptroller and Auditor General thereon. (In continuation of House of Commons paper number HC 853). Presented pursuant to the Learning and Skills Act 2000, Schedule 6, paragraph 14(4)(b).

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ADULT LEARNING
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Chair's foreword

2003-04 has been another good year for the Adult Learning Inspectorate (ALI). We set out to continue raising our performance and to make some cost savings. The board had also decided on an ambitious new Corporate Plan for 2003-06, diversifying our service and our income streams across a wider range of government departments and the private sector. We are also now passing on to providers the quality improvement lessons from inspection more effectively than ever before, through our national learning network, Excalibur. Our vision is to be a world class quality assessment business, raising standards through inspection.

We made good progress towards our goals in 2003-04. Inspectorates have usually shied away from the private sector. The ALI's work with companies which use public money to bring their staff training into the national qualifications framework, has helped us to develop a culture which is business friendly. Our inspectors are always conscious that they must add value and help to raise standards. Our inspection techniques and our approach to effective communications are driven by that overriding duty.

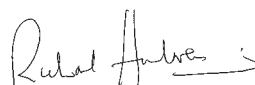
Some major achievements are set out in the board's Annual Report and Accounts for 2003-04. These include:

- > Fulfilment of our full programme of inspection while returning £1.5 million to the Department for Education and Skills as an efficiency saving.
- > A key role in decisively driving up standards in work-based learning.
- > Raising the quality of our work, with complaints halved to a rate of 3 per cent of inspections.
- > Halving the average duration between inspection and publication of each provider's report, which currently stands at six weeks.

- > New awards for Best Government Information Publication for the Chief Inspector's Annual Report, and Best Practice in a Fit-out Project for our national administration centre in Coventry.
- > HM Treasury approval of our plans for commissioned inspection in the public and private sectors.
- > Completion of an independent staff survey which placed the ALI among the best employers in the United Kingdom.
- > Confirmation by independent consultants that the work of our once-controversial Provider Development Unit is seen as "overwhelmingly positive" by the Learning and Skills Council, Jobcentre Plus and providers.
- > The successful launch of the first products of Excalibur.
- > Unqualified accounts for the third year running.

I must record here my appreciation for the support of our sponsors at the Department for Education and Skills (DfES) and the Department for Work and Pensions (DWP); for the deep commitment of my board and of our strong team of executive directors; and for the excellent year's work of ALI staff and associates.

Next year will be the last in our first cycle of inspection since the Learning and Skills Act 2000. Our tasks for the year include some which have been newly added by the Secretaries of State, and our budget and Business Plan were set well in advance. However, big changes are in prospect for the period from 2005, for which we must also prepare next year. In particular, we have to devise an inspection method which is more closely adapted to the needs and state of development of each provider, and further reduce costs to meet government guidelines. Doing these things simultaneously and in a way which protects the value of the ALI service will be challenging.



Richard Handover Chair

Annual Report 2003-04

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Introduction

THE ADULT LEARNING INSPECTORATE (ALI) was established in April 2001 under powers conferred by the Learning and Skills Act 2000. This report deals with the third year of the inspectorate's initial four-year inspection cycle and the first year of its second corporate plan, which covers the period 2003-06.

The scope of the ALI's work has been extended steadily through new requirements set out in the annual grant letters issued by our principal sponsors, the Secretaries of State for Education and Skills and Work and Pensions. By 2003-04, the ALI was a fully mature organisation. It had reached its designed staff complement of approximately 150 full-time inspectors and inspection managers, 650 associate inspectors and 100 staff in the national administration centre in Coventry. The professional backgrounds of inspectors comprised the full range of educational programmes and occupational skills undertaken by adults learning with the aid of public funding.

THE PLACES IN WHICH the ALI inspected included further education colleges, workplaces of all kinds, private and charitable training providers, hospitals, military installations, **learndirect** hubs and learning centres, prisons and probation offices, local authority adult and community learning centres, as well as similar provision abroad. In total, the ALI carried out 872 inspections and reinspections, of which 110 were in progress at the year's end.

The 2003-06 Corporate Plan set out the means of tightening management control and raising efficiency in all areas of the ALI's work. The consequences were further improvements in customer satisfaction and savings of some £1.5 million against the grant-in-aid made available by the Secretaries of State. The Corporate Plan also instigated extension of the ALI's work into commissioned inspections of other government departments and private companies training their staff at their own expense. These additions are intended to give a more comprehensive account of adult learning than is feasible by evaluating publicly-funded and nationally-accredited learning alone, so that policy might be better informed. The ALI's plans were approved by HM Treasury in January 2004. They will be implemented in 2004-05.

THE CORPORATE PLAN also launched a second brand, Excalibur. Excalibur sets out to radically improve the dissemination of inspection findings and good practice, to the providers which need them as guides to raising standards. The first Excalibur web-based and printed products were made available at the end of 2003, signalling the start of a more determined attempt to help improve the quality of learning nationally than has been made before by any government inspectorate.

“By 2003-04, the ALI was a fully mature organisation. It had reached its staff complement of 150 full-time inspectors, 650 associate inspectors and 100 office-based staff.”

THIS ANNUAL REPORT COMPLEMENTS the publication every November of the Chief Inspector's Annual Report. Every attempt has been made to exploit electronic multimedia techniques in preparing that report, so that it may be a useful aid to raising standards, rather than simply a record of activity.

The ALI's board and managers have been guided during the year by a number of statements of government policy, including Success for All; 21st Century Skills – Unleashing our potential; The Prime Minister's Office of Public Services Reform: Inspecting for Improvement, developing a customer focused approach. We believe that the ALI fulfils the criteria for effective, modern inspection which are helpfully set out in the last of these reports. This Annual Report and Accounts also confirms the continuation of a record of sound governance and financial management, established from the start of the ALI's existence.

Performance review

Inspection and reporting

■ The Adult Learning Inspectorate (ALI) carried out 872 initial inspections and reinspections during the fiscal year 2003-04, of which 110 were in progress at the end of March 2004. Among these, 242 inspections and reinspections (30 per cent) were conducted jointly with other inspectorates, wherever combined working was statutorily required (Ofsted) or where it improved efficiency and effectiveness (Estyn, Her Majesty's Chief Inspector of Prisons, Her Majesty's Chief Inspector of Constabulary, The Army).

■ Inspections were conducted against the *Common Inspection Framework*. This document, developed by the predecessor organisations of the ALI with Ofsted, has proved robust in the growing variety of learning environments in which the ALI works. During the year, the *Common Inspection Framework* was reviewed by the ALI and Ofsted for its suitability for continued use in the second cycle of inspections from 2005. The benefits of continuity were found to be considerable in terms of promoting consistency of judgement over time. Maintaining the *Common Inspection Framework* would also minimise disruption and cost among providers and funding bodies, which also use it for self-assessment and contractual review, respectively. If it continues in use after 2005 it will be the first time since 1993 that the inspection and self-assessment instruments used in further education colleges have remained unchanged for any period longer than four years. The ALI and Ofsted have reached a provisional conclusion that the *Common Inspection Framework* remains fit for its purpose; that it can be improved with some minor streamlining; and that it may be suitable for use in schools.

■ Following a provider survey conducted in 2002-03, the ALI simplified and shortened its provider reports, published on the internet. Among the ALI's intentions was to make them more readily accessible by learners and their sponsors. It was also clear that reports would

be more useful as an agenda for quality improvement if they were to be published more quickly. In 2002-03, all but one report was published within 12 weeks of the end of each inspection, with the average time taken to publish a report being 10 weeks. The ALI set itself the task of gradually reducing this figure to six weeks in 90 per cent of cases, during 2003-04. In the event, 99 per cent of reports were published within the target time. By the end of 2003-04, the inspectorate had published 463 reports, with the average time taken for the month of March standing at six weeks. Reports are moderated by inspection managers and directors, as well as edited, and then checked for accuracy by the provider between the end of inspection and publication. Over 95 per cent of providers rated as good or outstanding the match between their inspection report and the feedback given to them by inspectors. Some 85 per cent of providers said that detailed inspection findings produced as a supplement to the published report were good or outstanding as an aid to improving their service to learners.

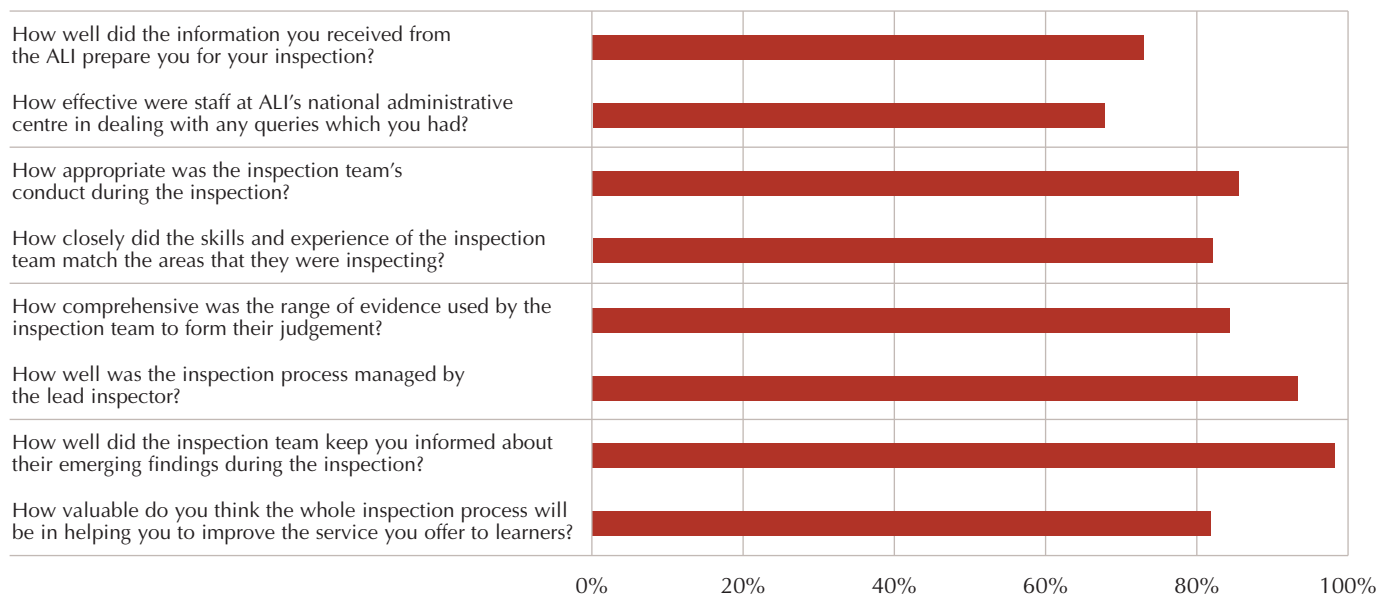
■ In addition to reports on individual providers or geographical groupings of providers, the ALI produced 12 survey reports for the DFES and the DWP, three pilot inspection reports for the Ministry of Defence, and a survey report for the Home Office on services to learners in the care of the Probation Service. The ALI is currently carrying out a programme of pilot inspections for the Department of Health. Pilot inspection reports were also prepared on privately-funded learning in three companies. A number of survey reports were published on disks, distributed with the ALI's newspaper for the learning and skills sector, *Talisman*. This form of publication proved promising, because it made possible the use of accompanying video and ensured that some 6,000 copies of each report were cheaply and efficiently placed in the hands of the staff who could best use them to raise standards.

■ For the second time, the Chief Inspector's Annual Report for 2002-03 (published in November 2003), was produced mainly in electronic form. The chief inspector's own commentary, dealing with issues in the sector at a strategic level, was also produced in printed form. The way in which the report was both comprehensive and easily referred to, was widely praised by providers and their representative bodies. The ALI and its designers won a national award for Best Government Information Publication of the Year, recognising the pioneering work done by the ALI in achieving more effective accountability.

■ During 2003-04, the ALI received a total of 20 complaints or appeals from providers, of which three referred to joint inspections with Ofsted. These figures amount to a dissatisfaction rate of less than 3 per cent. This is half the rate experienced in 2002-03. Among the complaints or appeals received, 16 were requests that the ALI internally review grading decisions, three were complaints about inspectors' conduct and one combined both concerns. Seven appeals were upheld, four partly upheld, six were rejected and one was dropped by the provider. Two were under further review or consideration by an independent adjudicator at the year's end. The ALI takes complaints seriously, deals with them as promptly as possible according to a published procedure and, wherever practicable, in a manner which fully resolves concerns so that nothing hinders the effective use of inspection findings to raise quality.

■ After every inspection, the ALI's quality assessment team, which is independent of the management arrangements for inspection, seeks providers' evaluation of the service they have received. The format for evaluation was improved for 2003-04 and will now remain stable. The change precludes presentation of precise trend data, but where exact comparisons can be made with the two previous years, providers now report more favourably on ALI inspection. The chart overleaf shows the proportion of

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Figure 1: proportion of providers reporting the ALI's performance as good or outstanding following inspection

providers which reported that the ALI was good or outstanding in respect of each of the questions asked.

The board regards these responses as good, particularly in the light of the unfavourable judgements inspectors have to make of many providers, but will continue actively to seek further improvement.

■ Inspection findings in 2003-04 gave an encouraging picture of some parts of the learning and skills sector, which, from 2001-02, had been the subject of acute anxiety. In work-based learning, the proportion of providers declared inadequate by the ALI stood at 39 per cent, compared with 48 per cent in 2002-03 and 58 per cent in 2001-02. Some of the improvement was, no doubt, due to subsidence of the turmoil associated with radical new arrangements introduced as a consequence of the Learning and Skills Act 2000. However, rigorous inspection and improving co-operation between the ALI and the two main funding bodies, the Learning and Skills Council and Jobcentre Plus, have contributed much to driving up standards and eliminating poor providers.

■ Among **learnirect** hubs, only two of the 14 inspected in 2003-04 were inadequate, forming a solid base, as the chief inspector noted in his Annual Report for 2002-03, for developing their service in the more challenging locations for learning. Among adult and community learning and Jobcentre Plus providers, there was no significant change in standards. Nearly two-thirds of prisons made inadequate provision for learning, a particularly important deficiency given the demonstrable link between good education and training, better employability and reduced re-offending.

■ Among further education colleges, 11 per cent were declared inadequate, or 14 per cent if the results recorded for sixth form colleges are set aside. These figures are disappointing. Long-term research conducted by the ALI into inspection findings in colleges show that only 12 of the 65 general further education institutions which were found to be generally good by the Further Education Funding Council (FEFC) in its first inspection cycle 1993-97, sustained that rating in two subsequent inspections (FEFC 1997-2001, ALI/Ofsted 2001-04). Overall standards in further education colleges appear to have declined slightly over the past decade, although the use of three different inspection frameworks during the period obscures the picture somewhat.

■ The ALI introduced a new approach to reinspection during 2002 which operated throughout 2003-04. This entailed a series of small-scale visits by inspectors, evaluating improvements by stages instead of during a single reinspection event. The approach proved more successful than its predecessor, with the cure rate among providers up to 87 per cent, compared with around 69 per cent in earlier years. Providers' satisfaction rate with the revised method was 89 per cent good or outstanding. At the behest of ministers, the ALI also introduced short monitoring inspections in January 2004, following a period of consultation and testing. These monitoring visits are primarily intended to check whether or not providers which have recovered after reinspection have sustained their improvement a year later. They usually consist of a one-day visit by one or two inspectors and should offer reassurance without disruption. Early indications are that monitoring inspections are a useful service to providers, learners and funding bodies and should remain a permanent part of the ALI's business.

Organisational development

■ The ALI believes that there is much evidence to suggest that information derived from inspection has been applied less effectively than is desirable, towards achieving and sustaining quality improvement. In particular, the national commitment to continuous improvement demands that the various agencies involved, work together better to raise standards, incrementally and irreversibly. For this reason, the ALI launched a new brand, Excalibur, in 2003-04. Excalibur is structurally distinct from ALI inspection services, so that there can be no suspicion of a taint on the independence of inspection deriving from attempts to help each provider improve. Many Excalibur products will be delivered online or through publications, which will be of better quality than anything available hitherto, because of the use of modern multimedia techniques. Around ten inspectors will be on fixed-term secondment to Excalibur to offer face-to-face exegesis of the lessons from inspection, and first-line help where needed. There will also be a small technical team in the ALI's national administration centre, led by the Excalibur manager.

“The demand is to use inspection evidence more effectively to raise standards throughout our remit.”

■ The first Excalibur products were launched in November 2003. These were the first instalments of the Inspection Toolkit, a guide to preparing successfully for inspection (and thus improving the service to learners), and the Excalibur Good Practice Database. The latter consists of examples of successful learning practice, validated by inspection, which are explained and illustrated so that others can adapt and use them. Each example includes contact details for the provider concerned, so that free

information and mutual aid can become increasingly important features of what the ALI has dubbed the national quality community. The Good Practice Database is expanding each quarter. Both these initial products have been very well received. A steady stream of new services will become available during 2004-05 and beyond.

■ Excalibur has benefited from an earlier ALI initiative, offered at the request of ministers. The collapse in standards in work-based learning in 2001-02 (see opposite) was addressed by the establishment of a Provider Development Unit (PDU). This is staffed by 20 inspectors on fixed-term secondment and is strictly quarantined from inspection activity. Working in collaboration with local Learning and Skills Councils and Jobcentre Plus offices, their job has been to give up to 10 person-days' help to failing providers, working to an agreed recovery plan which commits the provider to active co-operation. The authority and experience of ALI inspectors, as well as their association with the body which identified the faults, have made the PDU a unique and highly effective resource. An independent report produced for the ALI by York Consulting concluded that the PDU had been overwhelmingly successful in the eyes of providers and the funding bodies. The PDU worked with 245 providers during 2003-04.

■ It is planned to wind up the PDU in its present form during 2004-05 and subsume its best features in Excalibur, even though there are requests to retain it and extend its reach. In essence, the PDU has devoted its energies towards weak work-based learning provision, whereas the demand is to use inspection evidence more effectively to raise standards throughout the ALI's remit. To meet that need, the ALI must shift from individual provider support through the PDU, to activities and methods which support groups.

Figure 2: summary results from staff survey

(%)		ALI	MORI overall norm	MORI public sector norm	Top 10 norm
1	I feel valued and recognised for the work I do	55	37	33	52
2	I am treated with fairness and respect here	74	53	51	58
3	We have adequate resources and facilities	90	50	47	68
4	We have the ability to develop our careers	50	32	28	46
5	We have a good benefits package	92	57	54	78
6	We are satisfied with pay	67	42	39	61
7	ALI is an organisation which looks after its employees	74	42	36	55
8	Directors have a clear vision of where ALI is going	78	40	33	70
9	My line manager discusses my training and development needs with me	65	42	40	57
10	My line manager is open and honest	82	66	69	77
11	My line manager is supportive if I have a problem	80	70	69	80
12	My line manager treats me fairly	85	74	74	83
13	ALI is committed to training and developing its staff	87	48	49	65
14	I understand ALI's overall objectives.	91	62	60	87
15	I understand my department/division's objectives	91	74	72	88
16	I understand the contribution I am expected to make	87	72	69	85
17	I am fully and fairly informed	82	53	51	77
18	I believe the information I receive about what is happening in the ALI	87	61	57	82
19	I would speak highly to people outside the organisation about ALI as an employer	77	45	36	73
20	I would speak highly to people outside the organisation about ALI services	83	57	48	80

■ In his initial remit letter in 2001, the Secretary of State for Education and Skills required that the ALI be an exemplary employer. This aspiration has been taken very seriously. The inspectorate achieved the Investors in People national standard in September 2002 and, during 2003-04, was working towards re-affirmation of the award and movement to its more advanced grades. The ALI is convinced that the best guarantee of an excellent service to its customers is to invest continuously in the expertise and well-being of its staff. An independent survey of the views of ALI staff by the MORI polling organisation was carried out in February and March 2004 and prompted an 84 per cent response rate from permanent employees. In every respect, the ALI exceeded the norms recorded for employers which use MORI surveys, most markedly so the norms for public sector employers.

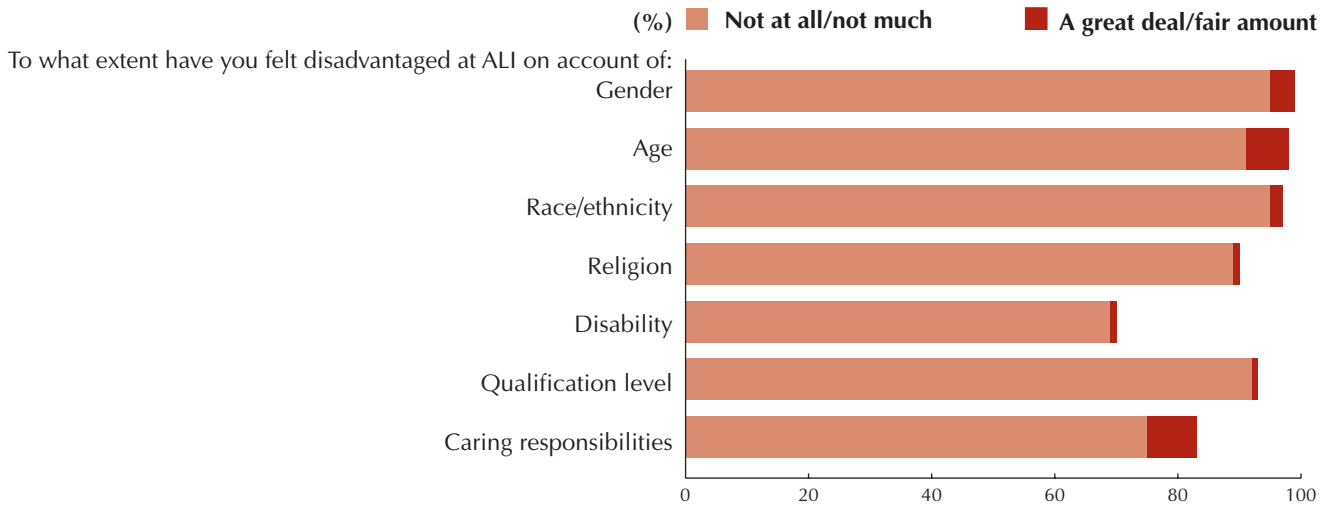
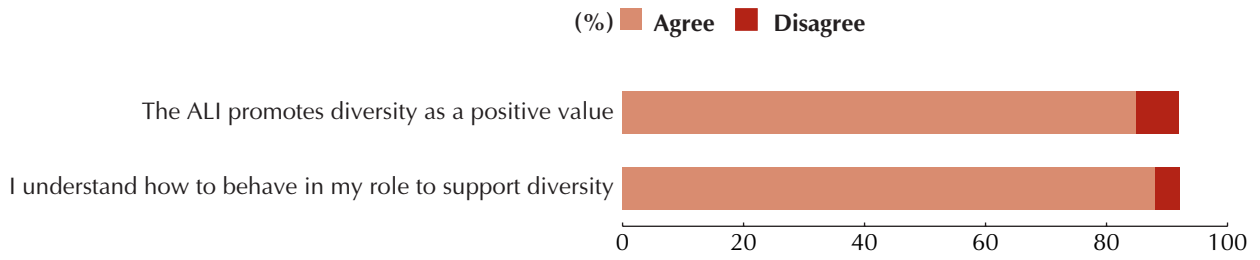
■ In the case of 20 key questions, the ALI was found to be among the national Top 10 employers which use MORI polls. These responses are set out in the table above. The board believes these results to be particularly good in light of the fact that all the ALI's frontline staff, that is 59 per cent of its 257 employees, are home-based throughout England.

■ Around 61 per cent of on-site inspection days are provided by ALI associate inspectors, who usually offer an element of peer judgement based on their work in, or with, providers during the rest of their time, as well as

highly specialised occupational skills which are not needed full-time. At the end of 2003-04, there were 672 ALI registered associate inspectors, amounting to some 152 full-time equivalents. Among these, 234 were jointly registered with Ofsted, providing a flexible, cost-effective resource and one which helps to secure consistency of judgement in those areas where the remits of the two inspectorates touch. In addition, 59 more associate inspectors were in training at the end of 2003-04. The daily fee for associate inspectors will rise from £275 to £300 from 1 April 2004, after remaining unchanged since 2001.

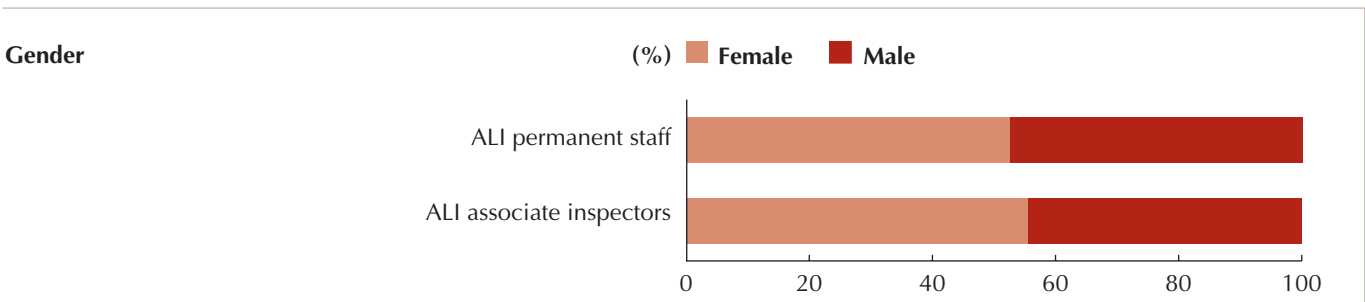
“The ALI was found to be among the national Top 10 employers which use MORI polls.”

■ The ALI is strongly committed to diversity among staff. The vice-chair of the board leads on diversity issues, with the chief inspector heavily involved and an inspection manager (assistant director from 1 April 2004) taking day-to-day responsibility for development. The MORI survey of staff addressed diversity issues, producing the following data:



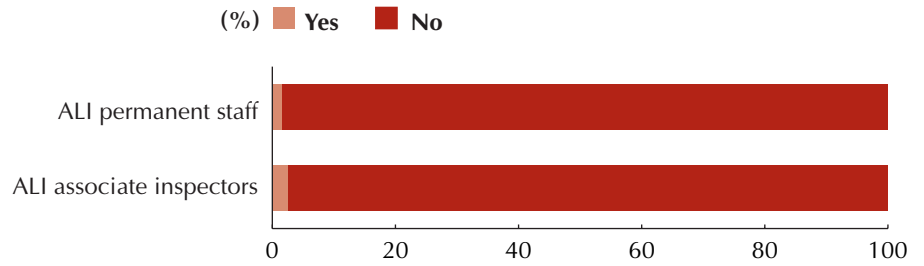
These results recorded for the ALI are better than the overall norm recorded by MORI for the organisations with which it works, in every case. The inspectorate published an information booklet for its staff in 2004, with learning confirmed through a telephone test. This booklet has been widely praised.

■ The ALI regularly monitors its staff profile for indicators of equality of opportunity. The position recorded at the last completed survey in December 2003 was as follows:



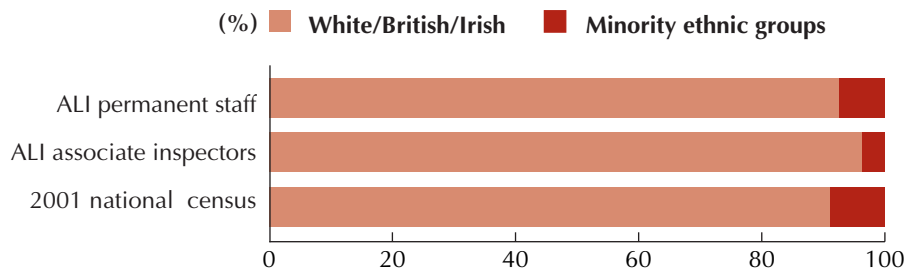
In the two most senior ALI job families, men outnumbered women in the proportion 70:30, while in the two most junior job families, women outnumbered men in a similar proportion. In the largest job family, including inspectors and other senior professional posts, men and women are represented in fairly equal balance.

Disability



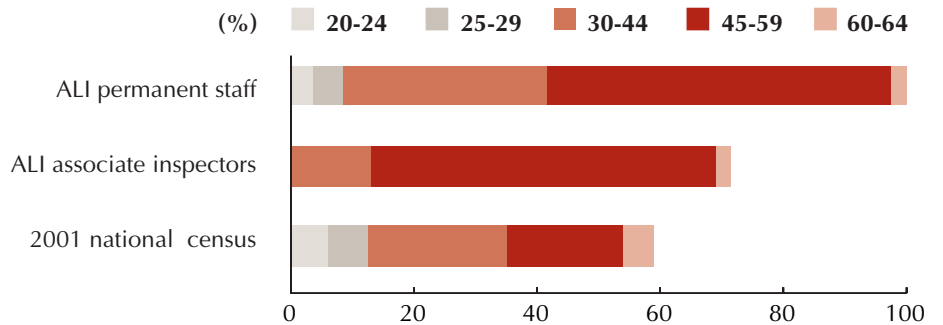
Disabled people are under-represented in the ALI, even allowing for the high demands on mobility and sensory perception among inspectors and their managers. Work is being done to address this concern.

Ethnicity



People from minority ethnic groups are disproportionately well-represented in more junior positions.

Age profile



The ALI's age profile is shaped by the requirement that many of its staff, especially inspectors, be experienced senior professionals. The ALI does not impose a set retirement age on staff or associates.

■ Flexible working is an essential part of the ALI culture. Long hours, which are often essential if inspectors are to observe an adequate sample of learners' experiences, are systematically alleviated by planned time off and individual control over diaries. Fractional working among permanent inspectors increased during 2003-04, following its initial availability the previous year. There are constraints on this development imposed by the necessity to avoid conflicts of interest arising from work undertaken outside the ALI.

■ The efficient deployment of inspectors and associate inspectors presents ever-greater challenges, as the ALI's remit widens. In many cases, these challenges are heightened by inadequate, inaccurate or old data. This problem is acute in further education colleges where the data available on learner numbers and achievement levels are often out-of-date by up to two years. The ALI has responded by changing from an inspection support team, aided part-time by an inspection manager, to a new Inspection Planning and Deployment team led by a departmental manager at senior level. The match between inspector skills and numbers and the circumstances found in each provider on the first day of inspection remains imperfect, but an efficiency gain of 30 per cent has been achieved in 2003-04.

■ The ALI is recognised nationally as an exemplary manager of its car fleet, used by inspectors and their managers. For environmental reasons, the maximum carbon dioxide emissions allowed were reduced from 190 gm/km to 180 gm/km in 2003-04. The ALI has a virtually all-diesel fleet of 119 cars, leased from Hitachi Capital. Business travel in 2003-04 was 2.8 million miles, of which 1.4 million were driven by inspectors and a further 1 million by associate inspectors. There were three

accidents where ALI drivers hit other vehicles, a rate of one significant accident in over 900,000 miles. Defensive driving training, provided by the Institute of Advanced Motorists, continued to be made available.

■ For 2003-04, in agreement with its sponsor department and HM Treasury, the ALI made the following award of improved pay and conditions to its staff:

> Consolidated salary increase	2.9 per cent
> Non-consolidated team award	1.6 per cent
> Non-consolidated award for individual outstanding performance	6.5 per cent
> Free health screening	

Directors, including the chief inspector, were subject to a separate regime, including performance bonuses of up to 10 per cent on the basis of appraisal by lay members of the board, under the general supervision of the remuneration committee.

■ Performance appraisals in 2003-04 (linked directly to pay) produced the following outcome:

> Not meeting expectations (excluding a substantial number of new staff who had yet to achieve full competency)	0.44 per cent
> ALI standard: Good performance	69.34 per cent
> Outstanding performance	30.22 per cent

There were nine appeals, resulting in two grade changes.

Poor performance is not managed primarily through appraisal, but by managers working to formal procedures. Nevertheless, the board was concerned by the extent to which these outcomes varied from a normal distribution, even in a new organisation achieving high standards. The appraisal system was further refined during 2003-04, offering better guidance to appraisees and their managers; more precise definitions of the levels of performance required; a five-point scale with three bonus-earning categories for individuals; and no provision for a team bonus.

■ Following the wishes of staff, formal consultation on terms and conditions of service, personnel policies and procedures, is carried out by a Joint Consultative Committee (JCC), with elected representatives. The JCC met four times during 2003-04, dealing with a wide variety of issues. Staff were invited to raise issues with their representatives and prompted to contribute agenda items in the weekly staff bulletin, which was also used to confirm results.

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Communications

■ As a new organisation, the ALI has been concerned to increase press coverage of its findings, in order to raise the amount of information conveniently available to potential adult learners. In particular, the ALI sought to improve representation in local and minority ethnic publications. According to a survey conducted by consultants for the ALI, the number of press cuttings for each quarter increased approximately four-fold in 2003, with 46 per cent positive in tone and 49 per cent neutral. The most frequently appearing theme was that 'the ALI makes an independent and honest judgement', which was found in 57 per cent of the cuttings. Local and regional coverage now accounts for around half of the total, but it was estimated that learners would have seen only about half of the information placed in the media.

■ The very positive staff returns to MORI (see page 10) regarding their knowledge and understanding of policy, reflect well on internal communications. The inspectorate publishes a weekly bulletin for staff, a monthly bulletin for associate inspectors and a monthly newspaper, *Talisman*, distributed to the learning and skills sector, as well as to staff and associates. This high level of activity fosters the necessary cohesion in a body which depends on consistency of judgement to maintain its reputation, but whose staff are distributed nationwide.

■ In addition to maintaining all the necessary relationships properly to fulfil its remit, the ALI took part in the Modern Apprenticeship Task Force, the Tomlinson review of provision for 14-19 year olds, a review of measures of achievement (published as *Measuring Success*) and a review conducted by independent consultants commissioned by the Department for Education and Skills, of the planning, funding and inspection arrangements brought into being by the Learning and Skills Act 2000. The conclusions of this last report are positive about the ability of the current inspection regime to raise standards, and particularly so about the approaches adopted by the ALI.

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Governance and corporate services

■ The board met five times during 2003-04. Members' attendance was good at both board meetings and sub-committees. An appraisal process for members was introduced during the year. A register of members' interests is publicly available. The format for meetings proved effective, with a strategy session without observers enabling members to both develop policy and scrutinise proposals in detail, followed by a formal meeting at which the board discharged its fiduciary duties.

“We have again undertaken reviews of the risk management processes within the inspectorate and are pleased to note the progress made. The reporting mechanisms are now in place and operating effectively and there is a continuing process of embedding risk management throughout the organisation.”

■ The board amended its sub-committee structure in 2003-04 to correspond to the operating divisions of the ALI. Each committee met five times and proved effective in contributing to policy development and oversight. The Audit Committee was evaluated by the internal audit division of the Department for Education and Skills in March 2004, against the requirements set out in Government Internal Audit Standards (GIAS) and the *Audit Committee Handbook* published by HM Treasury. It was found to comply fully. The evaluation also concluded that 'Members possess a suitable range of experience and one member is an accountant.'

■ The evaluation also considered the internal audit service provided by PricewaterhouseCoopers (PWC). The audit opinion was as follows:

“We concluded that the internal audit service provided by PWC complies fully with the requirements of the GIAS. We consider that the ALI takes a proactive approach to ensuring that it has adequate arrangements in place. This approach has included a governance healthcheck undertaken by the finance director and a self-assessment of its internal audit service against the GIAS.”

■ Comprehensive new arrangements for risk management were introduced in time for the start of 2003-04. Greater formality in setting objectives, monitoring them, identifying and managing risks has proved beneficial in securing cohesion and effectiveness. The head of internal audit (PWC) concluded:

“We have again undertaken reviews of the risk management processes within the inspectorate and are pleased to note the progress made. The reporting mechanisms are now in place and operating effectively and there is a continuing process of embedding risk management throughout the organisation.”

■ Accounting systems and controls were further strengthened in 2003-04, with the installation of CODA Dream software and the appointment of a permanent finance director.

■ Monthly meetings with officials from the DfES sponsor team, a more formal quarterly review of progress against targets and financial matters, and a half-yearly budget review, assisted the ALI in monitoring the efficiency and regularity of its business.

■ The achievements of the Governance and corporate services division are set out above insofar as the management of inspection complaints and the provision of appropriate accommodation and transport for the inspectorate, are concerned. Also within the remit of the division are information technology and data and research services.

■ With its home-based inspection workforce, the ALI is dependent on efficient ICT services: it is an e-business. The ICT department was substantially restructured during 2003-04 to provide better crisis proofing and to strengthen strategic management. A significant programme of technology refreshment was also carried out, with a review of the strengths, weaknesses and possible eventual replacement of the ALI's own inspection management system, IMS 2000 (of which Ofsted is a customer), and the purchase of Microsoft CRM for relationship management. Good progress was made with developing information security to the BS 7799 standard, with which the ALI will comply by 2005. The websites were improved, taking account of user comment and the additional requirements demanded by Excalibur, were incorporated. In order to introduce more informed demand for new technology from staff, a showcase area, Innovation ALI, was opened where newly-available equipment can be tried.

■ The quality assurance, data and research department made good progress in developing standard operating procedures for the ALI as a whole, and in document control. Formal registration for the new Investors in Excellence standard was completed in March 2004. Health and safety training for all inspectors, including risk assessment of inspection sites, and a new health and safety manual, were completed during the year.

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Developments for 2004-05

■ The coming year will be transitional, in the sense that it is the final year of the ALI's first complete inspection cycle and many staff will be preoccupied by detailed planning for the next. The main lines of development were laid down a year ago in the board's 2003-06 Corporate Plan, and they have been accepted in detail by ministers through endorsement of the ALI's 2004-05 Business Plan. The salient features of this plan are as follows:

- > Secure further efficiencies, amounting to a planned under-spend of up to £1 million against the agreed budget.
- > Fulfil our inspection programme to high standards, raising provider satisfaction level still further.
- > Develop commissioned inspection in the public and private sectors, with a revenue target of £1.3 million and with the aim of contributing decisively to the national skills strategy.
- > Secure benefits from new management in several partner organisations to improve the coherence of the accountability and quality improvement system as a whole.
- > Complete detailed preparations for the second cycle of inspections, including improvements in joint working with Ofsted.
- > Develop Excalibur, in partnership with the Learning and Skills Development Agency (LSDA) so far as regional and local delivery is concerned.
- > Continue to drive up standards of training for the benefit of adult learners.

■ As it begins the year, the ALI has significant concerns that the combination of a tighter public expenditure round and the cross-government efficiency review might lead to perverse consequences. Working for quality improvement and working with industry are long-term enterprises. They do not benefit from the perturbations associated with the political cycle. The board is confident that it has created a public-sector enterprise which is both soundly managed and highly innovative. What it seeks now is the opportunity to apply the ALI to the nation's deep-seated problems in adult learning and employment skills, over a period and with an intensity sufficient to bring about irreversible change.



David Sherlock Chief Inspector
15 June 2004

Accounts 2003-04

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Foreword to the accounts

2003-04

BACKGROUND

The accounts cover the year from 1 April 2003 to 31 March 2004. They have been prepared in accordance with the direction dated 25 May 2001 given by the Secretary of State for Education and Skills, with the consent of HM Treasury, in accordance with Schedule 6, paragraph 14 of the Learning and Skills Act 2000 and the Financial Memorandum dated 10 February 2004.

The ALI is an executive non-departmental public body (NDPB) established under the terms of the Learning and Skills Act 2000. It was launched on 1 April 2001, working with the Department for Education and Skills (DfES) and the Department for Work and Pensions (DWP) as its main sponsors. The DfES sponsor team channels funding:

- > from the DfES to enable the ALI to inspect learning provision funded by grant or contract through the Learning and Skills Council (LSC); and learning in custody in conjunction with the Offenders' Learning and Skills Unit (OLSU)
- > from the DWP to enable the ALI to inspect Jobcentre Plus programmes

PRINCIPAL ACTIVITIES

The ALI's main functions are set out in the Learning and Skills Act 2000. Under this Act, the ALI has responsibility for the inspection of:

- > further education for people aged 19 or over, which is funded by the LSC or a local education authority (LEA), including adult and community learning
- > training provided wholly or partly on employers' premises for people aged over 16, which is wholly or partly funded by the LSC

- > training funded (through Jobcentre Plus) under the Employment and Training Act 1973, including the New Deals
- > training offered and funded by employers, at the invitation and expense of the employer.

The ALI inspects against the *Common Inspection Framework*, which was drawn up in partnership with Ofsted and which applies (with variations to accommodate schools regulations) to all post-16 learning provision. The *Common Inspection Framework* was published in March 2001 after public consultation. It has statutory force under the Learning and Skills Act 2000 and cannot be amended without further public consultation and the consent of the Secretary of State for Education and Skills. The *Common Inspection Framework* achieved consensual support across the learning and skills sector and enables comparison to be made between similar subjects delivered in differing settings.

Additional functions have been specified in the Secretary of State's remit letter and subsequent grant letters, to include inspection of **learnirect**; learning in prisons; adult and community learning and vocational provision overseas in support of the work of the British Council.

The ALI's remit for inspection of further education colleges is shared with Ofsted. The ALI also works with Ofsted on the inspection of Connexions services, 14-19 area inspections and teacher training. Other inspections are also conducted collaboratively, including those with Estyn (work-based learning provision which takes place in both England and Wales); with Her Majesty's Chief Inspector of Constabulary (training in the police service) and with inspectors in the armed forces (military training).

All provision identified at initial inspection as inadequate is also subject to a reinspection – with support for providers deemed unsatisfactory provided through the ALI's PDU.

The ALI also conducts an agreed number of thematic or survey reports which provide an effective input to policy formation and development for both the DfES and the DWP. During 2003-04, the ALI produced 12 survey reports for the DfES and the DWP. These included reports on engineering, quality assurance, good practice in work-based learning and initial assessment. The reports are published on disk and are also available on the ALI's website at www.ali.gov.uk.

The major area of development in 2003-04 has been the launch of Excalibur to providers and funding bodies to further facilitate the identification and sharing of good practice arising from inspection findings. During 2003-04 a total of 30 good practice products were published on the Excalibur zone on the ALI's website.

A more comprehensive performance review is included in the annual report on page 6.

FINANCIAL RESULTS FOR 2003-04

Grant-in-aid is paid by the Secretary of State under the authority of the Learning and Skills Act 2000 to enable the ALI to discharge its functions under the Act. The grant letter for 2003-04 set out indicative funding of £29,950,000 grant-in-aid for each of the three years 2003-04 to 2005-06 (2002-03 £24,600,000). This increase in funding reflected additional costs associated with the set-up of Excalibur, extension of the inspection remit and broadening the role of the PDU to support Jobcentre Plus providers identified as inadequate at initial inspection.

The actual grant-in-aid received in 2003-04 was £26,700,000 (2002-03 £23,782,000) of which £754,000 was used to fund capital expenditure (2002-03 £483,000). The main reasons for the difference of £3,250,000 (11 per cent) between the grant-in-aid ceiling and the amount claimed include:

- > under-spending of £1,505,000 compared with the original budget;
- > reduced cash requirements as a result of measures to reduce cash balances at year-end (by £219,000) coupled with timing factors regarding end of year payments for goods and services (£892,000);
- > a budgeted underspend of £634,000 against the approved grant-in-aid in order to fund future commitments.

The ALI received other operating income of £312,000 (2002-03 £178,000) which includes fees for commissioned inspection activity totalling £58,000 (2002-03 £8,000). The increased income from this area reflects the ALI's plans to extend its inspection activity for other government departments and the private sector, following DfES and HM Treasury approval in January 2004.

The ALI incurred revenue expenditure of £27,357,000 during 2003-04 (2002-03 £24,311,000). This is £1,774,000 (6 per cent) less than the original revenue budget of £29,131,000. Most of this saving was identified early in the year and was reflected in the revised revenue budget of £27,451,000 agreed with the DfES in October 2003. Actual expenditure is well within 1 per cent of this revised budget.

The main factors accounting for the savings include:

- > payroll savings mostly as a result of delays in recruitment to new posts and vacancies arising during the year;
- > savings on the cost of associate inspector fees and inspection travel and subsistence due to fewer on-site inspection days than planned, coupled with efficiency savings on travel costs.

The overall financial outcome for 2003-04 was an operating deficit of £294,000 (2002-03 £231,000), increasing the negative balance on the general reserve to £1,988,000 (2002-03 £1,703,000). The deficit has arisen because grant-in-aid claims have been reduced by more than the level of the underspend on the revenue budget, in order to minimise cash balances and debtors at year-end.

The Business Plan for 2003-04 included the following key performance indicators for inspection activities:

	TARGET 2003-04	ACTUAL 2003-04	TARGET 2002-03	ACTUAL 2002-03
Activity				
Number of inspections	612	574	693	715
Number of re-inspections	275	298	161	185
Cost per inspection day	£885	£889	£800	£763
Proportion of time full-time inspectors spend inspecting	67.5%	67.1%	71%	69%
Proportion of ALI resources directly attributable to inspection	65.8%	67.3%	68.0%	68.0%
Ratio of inspectors to support staff (excluding directors and associates)	1.43:1	1.55:1	1.59:1	1.55:1

There are no post balance sheet events relevant to the financial statements for 2003-04.

FIXED ASSETS

During the year the ALI spent £59,000 (2003 £53,000) and £695,000 (2003 £1,023,000) on additions to intangible and tangible fixed assets respectively. The movements in intangible and tangible fixed assets are set out in notes 6 and 7 to the financial statements.

FUTURE DEVELOPMENTS

The ALI has published its approved business plan for 2004-05, which sets out a number of important developments and issues for the year ahead, notably:

- > completion of preparations for the second cycle of inspections, including improvements in joint working with Ofsted;
- > further development of Excalibur, in partnership with the LSDA so far as regional and local delivery are concerned;

- > development of commissioned inspection services with a value of £1.3m for government departments and the private sector;
- > implementation of efficiency measures aimed at achieving a budget £1m below the approved grant-in-aid ceiling for 2004-05.

CORPORATE GOVERNANCE

The ALI is overseen by a board of nine members appointed by the Secretary of State for Education and Skills. The only executive member of the board is the Chief Inspector of Adult Learning, David Sherlock, who is also the Chief Executive and Accounting Officer. The board's main responsibilities, as defined in the Management Statement, include:

- > agreement of the overall strategic direction of the ALI;
- > informing the Secretary of State of changes likely to impact on the ALI's strategic direction;

- > ensuring compliance with statutory or administrative requirements for the use of public funds;
- > regular review of financial information on the management of the ALI;
- > demonstration of high standards of corporate governance;
- > establishment of an appropriate committee structure;
- > making arrangements for the annual performance appraisal of directors by committee chairs.

The board meets every quarter, with an additional meeting held each June to approve the annual report and accounts (in total, the board met on five occasions during 2003-04). Formal meetings are attended by observers from the ALI's main stakeholders or partners: DfES, Jobcentre Plus, LSC and Ofsted. In addition to its formal meetings, the

board holds strategy sessions to discuss policy and developmental issues.

The board has established four committees with formal terms of reference, chaired by non-executive directors. The board's committees also meet quarterly and submit minutes to the board. In 2003-04 these committees were designated as follows:

- > Audit, governance and corporate services (AGCS)
- > Communications
- > Inspection and reporting
- > Organisational development and remuneration (ODR)

The table below provides details of board and committee membership between 1 April 2003 and 31 March 2004.

NAME	DATE OF APPOINTMENT	ROLE	COMMITTEE MEMBERSHIP
Richard Handover	2 January 2002	Board Chair	None
David Sherlock	2 August 2000	Board member, Chief Inspector and Accounting Officer	AGCS (in attendance); Communications
Balvinder Chana	20 September 2002 resigned 12 June 2004	Board member	Communications; ODR
Paulene Collins, OBE	14 December 2000	Board member	AGCS ; Inspection and reporting
David Croll	14 December 2000	Board member	AGCS ; Inspection and reporting (Chair)
Margaret Luck, MBE	14 December 2000	Board member	Communications (Chair); ODR
Neil Makin	14 December 2000	Board member, Vice Chair	Communications; ODR (Chair)
Peter McKee	20 September 2002	Board member	AGCS; Inspection and reporting
Christopher Trinick	14 December 2000	Board member	AGCS (Chair); Inspection and reporting

The standard period of tenure is four years – one member (Balvinder Chana) resigned between 1 April 2003 and the date of approval of the 2003-04 accounts. The ALI maintains a record of declarations of interest made by board members and employees. A copy of the register of interests is available from the Manager, Executive Support Team, Adult Learning Inspectorate, Spring Place, Coventry Business Park, Herald Avenue, Coventry, CV5 6UB. Details are also available at www.ali.gov.uk. Details of related party transactions and connected bodies are given in note 22 to the financial statements.

The ALI complies with all the relevant requirements of HM Treasury regarding corporate governance and is committed to the principles of the combined code on corporate governance. In accordance with the Freedom of Information Act 2000, the ALI has submitted its publication scheme to the Information Commissioner for approval. The scheme, which is available on the ALI website at www.ali.gov.uk, sets out details of what information the ALI publishes, how it can be accessed and any charges applicable. This information includes minutes of formal meetings of the board and its committees.

EQUAL OPPORTUNITIES AND DIVERSITY

The ALI is committed to the principles of diversity in employing and managing its staff and during its inspection activities. It is the policy of the ALI that nobody should be unfairly discriminated against directly or indirectly because of their ethnicity, national origin or nationality, gender, sexual orientation, marital status, religious beliefs, political affiliation, age, social class, disability, trades union membership, employment status or role as a carer. The ALI has a diversity strategy and a full range of supporting policies and procedures. All staff have received relevant information and training. The development of diversity is guided by a diversity steering group with broad staff representation and a designated 'champion' among board members.

HEALTH AND SAFETY MANAGEMENT

The health and safety management system was fully implemented during the year. It is consistent with the requirements of BS 8800, it has been communicated to all staff and is available on the ALI intranet. Risk assessment training has been provided for managers and full-time inspectors. Risk assessments are being conducted for all ALI-led inspections and re-inspections commencing from April 2004, and self risk assessments have been undertaken in Spring Place.

To assure that the health and safety management system is operating efficiently, a health and safety audit programme has been established commencing in April 2004. The health and safety action plan details the work required for the continued improvement of the system. Other training activities include health and safety induction, manual handling, electrical safety, first aid, fire warden, risk assessment and the Construction Skills Certification Scheme training for full-time and associate construction inspectors.

The accident/incident/near miss report for the year 2003/2004 reveals that there were 26 accidents/incidents in total, with 17 at the national administration centre in Coventry and nine on inspection. The most frequent accidents/incidents being slips, trips and falls with a total of nine. One such accident was reported to the Health and Safety Executive. The injury sustained was a broken leg.

POLICY IN RELATION TO DISABLED EMPLOYEES

The ALI is an equal opportunities employer. The aim of the equal opportunities policy in relation to disabled employees is to ensure that no job applicant or employee receives less favourable treatment, directly or indirectly, on the grounds of disability (except where this conflicts with job suitability). The ALI is committed to meeting the full range of its obligations under the Disability Discrimination Act 1995. Reasonable adjustments in relation to premises and working practices are made where required.

CONSULTATION WITH EMPLOYEES

The ALI has a joint consultative committee (JCC) reflecting staff wishes in relation to representation and consultation with managers. The JCC meets regularly to deal with issues of:

- > management policy and procedure;
- > welfare;
- > workload;
- > remuneration and benefits.

ENVIRONMENTAL POLICY

During 2003-04 the ALI adopted a formal sustainable environment policy, linked to a range of objectives. These included:

- > maximising the efficient use of energy and materials;
- > recycling as much re-usable material as possible;
- > maximising the use of technology and promoting use of electronic rather than paper-based forms of communication;
- > promoting use of alternative transport and reducing carbon dioxide emissions of the ALI's car fleet.

PAYMENT OF CREDITORS

The Late Payment of Commercial Debts (Interest) Act, which came in to force on 1 November 1998, requires government bodies, in the absence of any agreement to the contrary, to make payments to suppliers within 30 days of either the provision of the goods or services or the date on which the invoice was received. During the year ending 31 March 2004 88 per cent (2003 93 per cent) of all third party supplier invoices were paid within 30 days, the shortfall largely accounted for by a temporary interruption to payments during the introduction of a new accounting system in autumn 2003. Two claims for interest under the Act were received from associate inspectors during 2003-04.

The ALI supports the Better Payment Practice Code by generally agreeing payment terms in advance when ordering goods and services, by setting out payment procedures on the purchase order, by settling invoices in accordance with any agreed contract terms or within 30 days, as required by law, and by informing its suppliers of incorrect invoices promptly to encourage settlement.

AUDIT

The National Audit Office (NAO) provided external audit services at a cost for 2003-04 of £30,000 (2002-03 £32,000). No other activities were performed by NAO in respect of the ALI in 2003-04.

PricewaterhouseCoopers (PWC) provided internal audit services at a cost for 2003-04 of £59,609 (2002-03 £56,827). PWC were appointed in 2002-03 following a tender exercise. The value of non-audit services provided to the ALI by PWC in 2003-04 was £4,817 for training and consultancy services to the human resources team (2002-03 £50,325 for job evaluation, software and tax services). The ALI's internal audit services were subject to a full review by the DfES internal audit service in March 2004. The review confirmed that the ALI's internal audit is operating effectively and in compliance with Government Internal Audit Standards.



David Sherlock Chief Inspector
15 June 2004

Statement of the responsibilities of the Chief Inspector

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Under schedule 6, paragraph 14 of the Learning and Skills Act 2000 the ALI is required to prepare a statement of accounts in the form and on the basis determined by the Secretary of State with the consent of HM Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the ALI's state of affairs at the year-end, and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the ALI is required to:

- > observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- > make judgements and estimates on a reasonable basis;
- > state whether applicable accounting standards have been followed, and disclose and explain any material departure from these in the financial statements;
- > prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the inspectorate will continue in operation.

The Accounting Officer for the Department of Education and Skills has designated the Chief Inspector of the ALI as the Accounting Officer for the ALI. The Accounting Officer is responsible for the proper management of the inspectorate's resources and staff; for ensuring high standards of corporate governance; and for ensuring that government guidance on regularity, propriety, and value for money

is complied with. The Accounting Officer is responsible for the following:

- > advising the inspectorate on the proper discharge of its responsibilities in accordance with statute and its Financial Memorandum
- > ensuring the efficient, economic and effective management of the inspectorate's resources, including cash, liquid assets, capital assets and equipment and personnel;
- > ensuring that the inspectorate keeps proper accounts and other records in relation to the accounts;
- > signs the final statement of accounts and sends copies of the statement to the Secretary of State and the Comptroller and Auditor General no later than the end of the August following the financial year to which the statements relate;
- > observing the guidance in *Government Accounting: A Guide to Accounting and Financial Procedures for the use of Government Departments* and all other guidance on the responsibilities of accounting officers that HM Treasury or the Cabinet Office issues from time to time.

A copy of the Accounts Direction is available from the Adult Learning Inspectorate, Spring Place, Coventry Business Park, Herald Avenue, Coventry, CV5 6UB.



David Sherlock Chief Inspector
15 June 2004

Statement on internal control

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SCOPE OF RESPONSIBILITY

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the inspectorate's policies, aims and objectives, whilst safeguarding the public funds and inspectorate assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am also accountable to the board for management of risk and maintaining effective systems for identifying, evaluating and managing the principal risks of the ALI. The board's role is to determine the ALI's risk management culture, the appropriate risk appetite and level of exposure and for approving major decisions which affect the organisation's risk profile. It also has responsibility for monitoring the management of corporate risks, for satisfying itself that divisional risks are being actively managed and annually reviewing the ALI's approach to risk management.

The ALI's relationship with its sponsor departments, the DfES and the DWP, is maintained through a regular programme of meetings with the sponsor teams and periodic meetings with ministers. The DfES and the DWP both have observer status on the ALI board.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore provide only reasonable and not absolute assurance of effectiveness. The system of

internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of inspectorate policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the inspectorate for the year ended March 2004 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

CAPACITY TO HANDLE RISK

The ALI has given high priority to the implementation of a comprehensive risk management system across all levels of the organisation. Significant progress has been made on embedding the risk management system and this work is continuing. The priority given to risk management is reflected in the corporate plan for 2003-06 and is given extensive coverage in the annual business plan. All ALI staff receive risk management training and have access to the risk register both in hard copy and online.

The risk management systems have been developed and refined during the year to accommodate new risks as they emerge and to give increased attention to the assessment of likelihood, financial and reputational impact.

THE RISK AND CONTROL FRAMEWORK

The risk identification and assessment process is an integral part of the business planning process of the inspectorate, with risks aligned to the corporate and divisional objectives for the year ahead. The process

of risk assessment is led by the executive team with widespread consultation and review by managers prior to consideration by the board, who have addressed the issue of risk appetite. The process is underpinned by assessment of mitigations and associated deliverables. All risks have designated lead directors or managers responsible for reporting the risk status according to a specified timetable. New risks which are identified during the year are added to the risk register and associated reporting and monitoring systems.

The bottom-up risk reporting system is managed according to a strict timetable of monthly divisional meetings which report up to the executive team, committees and the board and assess risks as green (no issues or actions outstanding), amber (active monitoring required) or red (positive action required to manage risk).

The risk reporting system introduced in April 2003 has proved effective in maintaining a high level of awareness of risk management at all levels of the inspectorate and has contributed to a steady reduction in the number of red and amber status risks during 2003-04.

Our risk management system involves managing risks which have an impact on the public. Stakeholder involvement is ensured by representation of the ALI sponsor departments, Ofsted and the LSC at board meetings.

REVIEW OF EFFECTIVENESS

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the inspectorate who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of

internal control by the board, the Audit, governance and corporate services committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the systems of internal control has been maintained by:

- > Regular monitoring of key performance indicators and the status of corporate risks by the board;
- > Review and approval by the board of key policies (such as fraud and whistleblowing) which underpin internal control systems;
- > Scrutiny of all internal and external audit reports by the Audit, governance and corporate services committee, supported by follow-up reports on the management response to control weaknesses;
- > Approval of the Head of Internal Audit's annual report;
- > Maintenance of an effective quality assurance system supported by an annual programme of quality audits and a range of documented policies and procedures;
- > Achievement of external standards, such as Investors in People.

SIGNIFICANT INTERNAL CONTROL PROBLEMS

My review of the effectiveness of the system of internal control has not highlighted any significant weaknesses.



David Sherlock Chief Inspector
15 June 2004

Adult Learning Inspectorate

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 32-53 under the Learning and Skills Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 35 and 36.

RESPECTIVE RESPONSIBILITIES OF THE INSPECTORATE, THE CHIEF INSPECTOR AND AUDITOR

As described on page 27, the inspectorate and Chief Inspector are responsible for the preparation of the financial statements in accordance with the Learning and Skills Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. The inspectorate and Chief Inspector are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Learning and Skills Act 2000 and HM Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the inspectorate has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 28 and 29 reflects the inspectorate's compliance with HM Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by HM Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the inspectorate's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

I conducted my audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the inspectorate and Chief Inspector in the preparation of the financial statements, and of whether the accounting policies are appropriate to the inspectorate's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In my opinion:

- > the financial statements give a true and fair view of the state of affairs of the Adult Learning Inspectorate at 31 March 2004 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Learning and Skills Act 2000 and directions made thereunder by HM Treasury;
- > in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn

Comptroller and Auditor General

21 June 2004
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

The maintenance and integrity of the ALI website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Income and expenditure account

FOR THE YEAR ENDED 31 MARCH 2004

	NOTES	2003-04 £000s	2002-03 £000s
Gross income			
Grants received	2a	25,946	23,299
Transitional set-up funding	2a	-	44
Other operating income	2b	312	178
Transfers from government capital grants reserve	13	805	559
		27,063	24,080
Expenditure			
Staff costs	3	13,677	11,849
Inspection fees and expenses	4a	6,156	6,137
Other costs	4b	6,710	5,722
Depreciation	6 and 7	733	559
Loss on asset revaluation	6 and 7	72	29
Notional cost of capital	1iv	9	15
		27,357	24,311
Operating deficit		(294)	(231)
Gain/(loss) on sale of fixed assets		(13)	(9)
Reversal of notional cost capital		9	15
Deficit for the period		(298)	(225)
Retained deficit bought forward		(1,762)	(1,537)
Retained deficit carried forward		(2,060)	(1,762)

All activities are continuing

Statement of total recognised gains and losses

FOR THE YEAR ENDED 31 MARCH 2004

	NOTES	2003-04 £000s	2002-03 £000s
Deficit for the period		(298)	(225)
Revaluation of fixed assets taken to reserve	7	50	27
Revaluation of depreciation taken to reserve	7	(10)	(2)
		(258)	(200)

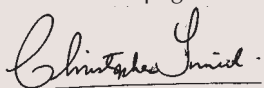
The notes on pages 35 to 53 form part of these accounts

Balance sheet

AS AT 31 MARCH 2004

	NOTES	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Fixed assets			
Intangible assets	6	79	52
Tangible assets	7	1,751	1,802
Current assets			
Debtors	8	620	896
Cash at bank and in hand	9	149	369
		769	1,265
Creditors			
Amounts falling due within one year	10	(2,523)	(2,626)
Net current assets / (liabilities)		(1,754)	(1,361)
Total assets less current liabilities		76	493
Provisions for liabilities and charges	11	(64)	(138)
Long term creditor	12	(170)	(204)
Total assets less total liabilities		(158)	151
Financed by:			
Government capital grants reserve	13	1,830	1,854
General reserve	14	(1,988)	(1,703)
		(158)	151

The notes on pages 35 to 53 form part of these accounts



Christopher Trinick
Chair of Audit, Governance
& Corporate Services Committee



David Sherlock
Chief Inspector and
Accounting Officer

15 June 2004

Cash flow statement

FOR THE YEAR ENDED 31 MARCH 2004

	2003-04 £000s	2002-03 £000s
Grants received from the DfES	25,946	23,299
Other cash receipts	175	312
Cash paid to and on behalf of employees	(13,323)	(12,187)
Other cash payments	(12,927)	(11,074)
Payments against provisions	(105)	(58)
	(26,355)	(23,319)
Net cash inflow/(outflow) from operating activities	(234)	292
Capital expenditure:		
Payments to acquire intangible assets	(59)	(53)
Payments to acquire fixed assets	(682)	(996)
Receipts from sale of fixed assets	1	18
	(740)	(1,031)
Net cash inflow/(outflow) before financing	(974)	(739)
Financing:		
Grant-in-Aid applied for purchase of intangible fixed assets	59	53
Grant-in-Aid applied for purchase of tangible fixed assets	695	1,023
Net cash inflow/(outflow) after financing	(220)	337
Increase/(decrease) in cash during the period	(220)	337

The notes on pages 35 to 53 form part of these accounts

Notes to the financial statements

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

i) Basis of preparation

The Adult Learning Inspectorate (ALI) was created under the Learning and Skills Act 2000 and was established on 1 April 2001. It is a non-departmental public body (NDPB) sponsored by the Department for Education and Skills (DfES).

The accounts are drawn up in accordance with the Accounts Direction dated 25 May 2001 given by the Secretary of State for Education and Skills, with the approval of HM Treasury, in accordance with the Learning and Skills Act 2000, Schedule 6, paragraph 14, and the Financial Memorandum between the Secretary of State and the ALI dated 10 February 2004, copies of which may be obtained from the ALI or the DfES.

The accounts are prepared under the modified historical cost convention and in accordance with the accounting disclosure requirements of the Companies Act 1985 (as amended by the Companies Act 1989), and accounting standards issued or adopted by the Accounting Standards Board; with the exception of the requirement contained in FRS3 for the inclusion of a note showing historical cost profits and losses.

ii) Grants from the DfES

Grants from the DfES are credited to the Income and Expenditure Account when applied for current purposes, but credited to the Government Capital Grants Reserve account when applied to meet the cost of acquiring or constructing assets which are capitalised. Grant held in this account is released to the Income and Expenditure account over the expected useful life of the relevant assets.

HM Treasury guidelines on issue of grant-in-aid preclude NDPBs retaining more funds than are required for their immediate needs. HM Treasury accounting rules also preclude the accruing of any grant-in-aid receivable to cover liabilities that are payable in the next accounting period. As a result, the grant-in-aid paid in any year may contribute to a surplus/deficit of income over expenditure as appropriate. Any such surplus/deficit will be taken into account in the funding of the following year grant-in-aid.

The inspectorate confirms that government grants received from the DfES have been used only for their approved purposes.

iii) Value Added Tax

Inspection services of any kind undertaken in the education and training sector fall within the scope of the exemption for examination services under item 3 of Group 6 to Schedule 9 of the VAT Act 1994. The inspectorate qualifies as exempt from VAT as an eligible body defined in Note (1)(d) of Group 6.

VAT costs incurred are included in each expenditure subhead and are not identified separately in the accounts.

Notes to the financial statements

iv) Notional costs

Following the guidance contained in HM Treasury guidance on NDPB's Annual Reports and Accounts (published November 1998) which requires NDPBs to disclose the full cost of their activities in their accounts, the ALI has included in its accounts charges for the notional cost of capital.

The Income and Expenditure Account result for the year is arrived at after charging a notional cost of capital calculated at 3.5 per cent (2003 6 per cent) of the average total assets less current liabilities during the year.

v) Pension costs

All employees of the ALI (other than those on casual contracts) are entitled to be members of the Principal Civil Service Pension Scheme (PCSPS). The conditions of the Superannuation Acts 1965 and 1972, and subsequent amendments apply to the employees of the ALI. Costs of the ALI's contributions are charged to the Income and Expenditure Account in the year in which they are incurred.

Contributions are paid to the Civil Superannuation Vote at rates determined from time to time by the Government Actuary and advised by HM Treasury.

vi) Operating leases

Rental payable in respect of operating leases is charged on a straight-line basis to the Income and Expenditure account over the lease term, even if the payments are not made on such a basis.

vii) Fixed assets and depreciation

The policy of the ALI is to show the value of fixed assets at their current cost to the business except where it is considered that the effect of revaluation makes no material difference to the results for the year or the financial position at the year end.

Expenditure on the acquisition of intangible and tangible fixed assets is capitalised where these costs exceed £2,500 or where an asset forms part of a larger group that in total is more than £2,500.

Depreciation is provided on intangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

- IT software licences – three years

Depreciation is also provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

- Spring Place refurbishment – eight years (equivalent to half the lease)
- office furniture – three years
- office equipment – three years
- IT equipment (hardware and software) – three years

Depreciation is calculated on a monthly basis and is charged from the month of acquisition. No depreciation is charged in the month of disposal.

Notes to the financial statements

NOTE 2A GRANT INCOME

The following note shows grant-in-aid received by the ALI from the DfES in the year to 31 March 2004. No transition grant was received in the year to 31 March 2004 (2003 £637,000) to fund non-recurring expenditure incurred in the set-up phase of the ALI.

	YEAR ENDED 31 MARCH 2004		YEAR ENDED 31 MARCH 2003	
	GRANT RECEIVED FROM DFES £000s	ALLOCATION OF GRANT £000s	GRANT RECEIVED FROM DFES £000s	ALLOCATION OF GRANT £000s
Grant-in-aid income	26,700	26,700	23,782	23,782
Transferred to Government Capital Grants	-	(754)	-	(483)
	26,700	25,946	23,782	23,299
Transition income	-	-	637	637
Transferred to Government Capital Grants	-	-	-	(593)
	-	-	637	44

NOTE 2B ANALYSIS OF OTHER INCOME

	2003-04 £000s	2002-03 £000s
Income from commercial inspection activities	58	8
Cost recovery of ALI staff working with partners	211	130
Share of rebates earned by third party supplier	31	24
Income from nominee conferences	12	16
	312	178

Notes to the financial statements

The ALI undertook inspection training activity in Bahrain in support of the British Council and commenced a UK commercial inspection in 2003-04 (none in 2002-03). Preparatory work for more commercial UK and overseas inspections was commenced and it is expected that further inspections will take place during 2004-05 as part of the expansion into wider markets.

	UK 2003-04 £000s	UK 2002-03 £000s	OVERSEAS 2003-04 £000s	OVERSEAS 2002-03 £000s	TOTAL 2003-04 £000s	TOTAL 2002-03 £000s
Commercial income	22	-	36	8	58	8
Inspector fees and salaries	6	-	15	4	21	4
Travel and subsistence	-	-	6	4	6	4
Overheads	8	-	15	2	23	2
Cost of capital (8%)	-	-	-	-	-	-
Total costs	14	-	36	10	50	10
Profit/(deficit)	8	-	-	(2)	8	(2)

This analysis conforms to HM Treasury's "The Fees and Charges Guide" and is not intended to comply with SSAP25, Segmental Reporting.

NOTE 3 EMPLOYEES

(a) Employee costs (including Chief Inspector)

The total costs of employees (including the Chief Inspector) employed by the ALI and temporary agency staff during the period to 31 March 2004 were:

	2003-04 £000s	2002-03 £000s
Salaries and wages	10,580	9,322
Social security costs	1,061	809
Pension costs	1,610	1,418
Temporary agency staff	426	300
Total costs of employees	13,677	11,849
Recoveries of costs of secondees to partners	(181)	(105)
Net costs of employees	13,496	11,744

These costs exclude fees paid to associate inspectors who are not employees of the ALI.

Notes to the financial statements

As noted in 3(b) below, an average of three employees were seconded to partners during the year. The total costs of employees shown above include costs of £181,000 (2003 £105,000) for salaries, NI and pension contributions for staff seconded to partners. Related non-payroll expenses incurred by seconded staff of £30,000 (2003 £25,000) are included in note 4(b) (other costs). All of these costs, totalling £211,000 (2003 £130,000) were recovered from partners as shown in note 2(b).

As also noted in 3(b) below, there was one person seconded from a partner in industry up to September 2003. The costs incurred in relation to this secondment during the year amounted to £32,000 (2003 £51,000). These costs are included in the costs of temporary agency staff.

Pension costs represent the charge to the Income and Expenditure Account in the year and comprise the amount payable to the Principal Civil Service Pension Scheme.

(b) Employee numbers

The average number of employees during the year expressed as full-time equivalents was:

	2003-04	2002-03
Directors	5	5
Inspection managers	14	13
Inspectors	132	122
Office-based staff	93	86
Seconded from a partner in industry	1	1
Total average number of employees	245	227

In addition to these employees, there was an average of three (2003 two) inspectors seconded to partner organisations.

As well as variations resulting from setting up the organisation and changes in priorities and functions, the totals are influenced by variations in the number of positions filled by temporary staff or consultants.

Notes to the financial statements

(c) Emoluments of senior employees

	YEAR TO 31 MARCH 2004 £000s	YEAR TO 31 MARCH 2003 £000s
David Sherlock, Chief Inspector – Age at 31/03/04, 60		
Emoluments	130	121
Benefits in kind	9	7
Real increase in pension at age 60	2	1
Total accrued pension at age 60 at 31 March 2004	5	3
Lisa Yeoman, Director of Inspection – Age at 31/03/04, 48		
Emoluments	87	77
Benefits in kind	7	5
Real increase in pension at age 60	1	1
Total accrued pension at age 60 at 31 March 2004	3	2
Denis McEnhill, Director of Inspection – Age at 31/03/04, 54		
Emoluments	87	77
Benefits in kind	6	4
Real increase in pension at age 60	1	1
Total accrued pension at age 60 at 31 March 2004	3	2
Nicky Perry, Director of Inspection – Age at 31/03/04, 54		
Emoluments	88	79
Benefits in kind	7	5
Real increase in pension at age 60	1	1
Total accrued pension at age 60 at 31 March 2004	3	2
Andrew Tyley, Director of Finance – Appointed 05/06/03 – Age at 31/03/04, 42		
Emoluments	64	0
Benefits in kind	5	0
Real increase in pension at age 60	1	0
Total accrued pension at age 60 at 31 March 2004	1	0

Emoluments include salary, performance pay, bonus, and allowances. Performance pay is calculated according to annual performance as measured by the appraisal process. The figures exclude pension payments made to the PCSPS in accordance with the scheme as noted in 1 above.

The benefits in kind are the monetary value of the leased company car and medical benefits provided to staff in the course of their duties.

No directors objected to the publication of information concerning their individual pension arrangements. Disclosure does not include cash equivalent transfer values or include the value of pension benefits transferred in from another scheme and added years and AVCs at full cost to pension scheme members. HM Treasury have given their consent not to disclose cash equivalent transfer values in 2003-04 due to apparent inaccuracies in the individual data received from PCSPS.

Notes to the financial statements

NOTE 4A INSPECTION COSTS

	2003-04 £000s	2002-03 £000s
Fees paid to associate inspectors	3,510	3,620
NIC paid on fees paid to associates	412	374
Inspection expenses	2,234	2,143
Total inspection costs	6,156	6,137

Since 1 April 2002 the ALI is considered to be the employer for the purposes of national insurance contributions, and this cost is shown above.

NOTE 4B OTHER COSTS

	2003-04 £000s	2002-03 £000s
Board members emoluments	10	9
Travel, subsistence and hospitality		
Board	17	8
Employees	660	823
Courses, conference, venues	1,310	959
Office supplies and services	710	405
Telephones and ICT	1,105	983
Premises and equipment	626	736
Recruitment and advertising	154	144
Other professional charges	674	256
Charges for operating leases	552	686
Consultancy fees	745	546
Staff welfare and relocation	115	132
External auditors' remuneration	30	32
Bank charges	2	3
Total other costs	6,710	5,722

Notes to the financial statements

NOTE 5 INSPECTORATE MEMBERS' EMOLUMENTS

(a) Total emoluments received by inspectorate members

The total emoluments including non-consolidated bonus received by the Chair and Chief Inspector in the year to 31 March 2004 excluding out of pocket expenses were £157,647 (2003 £148,688). Inspectorate members other than the Chair and Chief Inspector were neither paid nor were entitled to any emoluments.

(b) Emoluments of the Chair

Richard Handover, chair, has received £9,444 (2003 £9,228) in the year to 31 March 2004. The chair receives no bonuses or taxable benefits, and no pension contributions are payable on his behalf.

(c) Emoluments of the Chief Inspector

The Chief Inspector's total actual emoluments, including pension contributions, of £148,203 (2003 £139,460) received in the year to 31 March 2004 comprises a salary of £110,004 (2003 £101,280), a non-consolidated bonus of £10,128 (2003 £10,658) and an employer's contribution to pension scheme of £18,315 (2003 £17,982). The Chief Inspector received a taxable housing allowance of £9,756 (2003 £9,540), and benefits in kind amounting to £8,767 (2003 £7,447). The benefits in kind are the monetary value of the leased company car and medical benefits provided to the Chief Inspector in the course of his duties. The Chief Inspector is an ordinary member of the Principal Civil Service Pension Scheme; contributions are paid at the rates as outlined in note 19. The Chief Inspector's bonus was based on the senior civil service scale for measuring performance.

(d) Emoluments of other inspectorate members

Details of the emoluments of the Chair and Chief Inspector are set out above. Details of non-taxable travel and subsistence payments made to inspectorate members are shown in note 4 on administration costs.

A total of six members (2003 eight) submitted claims for non-taxable travel and subsistence payments during the year. These amounted to £7,000 (2003 £3,000) in total. The balance of expenditure shown in note 4 relates to expenditure where payments were made direct to suppliers for goods or services to enable the members to carry out their duties.

During the year to 31 March 2004, no monies were paid to third parties on behalf of inspectorate members (2003 £nil) in respect of their services.

Notes to the financial statements

NOTE 6 INTANGIBLE FIXED ASSETS

	IT SOFTWARE LICENCES £000s
Cost or valuation	
At 1 April 2003	53
Additions	59
Disposals	-
Indexation – to Income and Expenditure	(7)
– to Government Capital Grants Reserve	-
As at 31 March 2004	105
Depreciation	
At 1 April 2003	1
Charge for the year	26
Eliminated on disposals	-
Indexation – to Income and Expenditure	(1)
– to Government Capital Grants Reserve	-
As at 31 March 2004	26
Net book value at 31 March 2004	79
Net book value at 31 March 2003	52
Historical cost net book value at 31 March 2004	83

Notes to the financial statements

NOTE 7 TANGIBLE FIXED ASSETS

	ICT £000s	FURNITURE £000s	REFURBISHMENT £000s	TOTAL £000s
Cost or valuation				
At 1 April 2003	1,301	374	1,026	2,701
Additions	551	102	42	695
Disposals	(143)			(143)
Indexation – to Income and Expenditure	(115)	(3)	0	(118)
– to Government Capital			50	50
Grants Reserve As at 31 March 2004	1,594	473	1,118	3,185
Depreciation				
At 1 April 2003	659	119	121	899
Charge for the year	435	136	136	707
Eliminated on Disposals	(130)			(130)
Indexation – to Income and Expenditure	(50)	(2)		(52)
– to Government Capital			10	10
Grants Reserve As at 31 March 2004	914	253	267	1,434
Net book value at 31 March 2004	680	220	851	1,751
Net book value at 31 March 2003	642	255	905	1,802
Historical cost net book value at 31 March 2004	736	219	797	1,752

Building refurbishment costs, office equipment/furniture and ICT hardware and software costs were revalued by comparing average indices for the year of purchase with those for the financial year. Indices were drawn from the Office of National Statistics publication 'Price Index Numbers for Current Cost Accounting (MM17)'.

Notes to the financial statements

NOTE 8 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Trade debtors	47	60
Accrued income	33	-
Other debtors	122	441
Prepayments	418	395
Total debtors: amounts falling due within one year	620	896

NOTE 9 CASH BALANCES

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Total cash held in Paymaster General account at 31 March 2004	149	369

The DfES authorises a working cash balance for the ALI of 2 per cent of the grant-in-aid budget for the year. At 31 March 2004 the balances as per bank, compared with the amounts authorised, were as follows:

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Grant voted	29,950	24,600
2% thereof	599	492
Balance as above	149	369
Balance to be surrendered	Nil	Nil

Notes to the financial statements

NOTE 10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Trade creditors	824	880
Other creditors including income tax and social security	719	600
Receipts in advance	-	10
Current element of long term creditor in respect of rent	34	34
Accruals	946	1,102
Total creditors: amounts falling due within one year	2,523	2,626

NOTE 11 PROVISIONS FOR LIABILITIES AND CHARGES

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Provisions at 1 April 2003	138	146
Increase in provision for early retirement costs	5	0
Utilisation of provision for legal claims	(10)	0
Payment for early retirement costs	(59)	(58)
(Payment)/provision for income tax and NI	(36)	40
Release of balance of income tax and NI provision	(4)	0
Increase in provision for legal claims (see note 20)	30	10
Total provisions for liabilities and charges as at 31 March 2004	64	138
Allocated as follows		
Provision for early retirement	34	88
Provision for income tax and NI	0	40
Provision for legal claims (see note 20)	30	10
Total provisions for liabilities and charges as at 31 March 2004	64	138

The provision for early retirement costs is to meet the estimated costs of continued pension contributions until the age of 60 for two members of staff who retired early under the terms of the staff transfer from the Further Education Funding Council for England. The provision has been increased by £5,000 to provide for future inflation increases in the pension contributions.

Notes to the financial statements

NOTE 12 LONG TERM CREDITOR

Following the move to Spring Place in May 2002 the ALI has enjoyed a number of months where no rent was payable under the terms of the lease. This benefit will be credited to the accounts over the term of the lease until this is renewed in March 2010. The amount of benefit relating to future years is £204,000 (2003 £238,000) and this is shown in the balance sheet as follows:

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Creditor due within one year (see note 10)	34	34
Long term creditor	170	204
Total creditor in respect of rent	204	238

NOTE 13 GOVERNMENT CAPITAL GRANTS RESERVE

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Balance at 1 April 2003	1,854	1,367
Allocated from grant-in-aid	754	484
Allocated from transition income	-	593
Released to income and expenditure account	(805)	(559)
Released to general reserve in respect of disposal	(13)	(27)
Released to general reserve in respect of loss on asset value arising from indexation	-	(29)
Surplus on revaluation	50	27
Additional depreciation on revaluation	(10)	(2)
Balance as at 31 March 2004	1,830	1,854

The balance on the account represents grant-in-aid funding used to finance the purchase of the ALI's fixed assets. A proportion is transferred to the income and expenditure account annually over the estimated life of the relevant assets, to offset the depreciation charge based on historical cost on those assets.

Notes to the financial statements

NOTE 14 GENERAL RESERVE: RECONCILIATION IN MOVEMENT OF GOVERNMENT FUNDS

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Balance at 1 April 2003	(1,703)	(1,534)
Retained deficit for the year	(298)	(225)
Surplus on revaluation	-	-
Additional depreciation on revaluation	-	-
Released from Government Capital Grants Reserve in respect of disposal	13	27
Transfer from Government Capital Grants Reserve in respect of loss on asset value arising from indexation	-	29
Balance as at 31 March 2004	(1,988)	(1,703)

NOTE 15 LEASES AND HIRE PURCHASE AGREEMENTS

At 31 March 2004, the ALI had the following commitments under operating leases as set out below:

	31 MARCH 2004 £000s	31 MARCH 2003 £000s
Land and buildings		
Operating leases which expire:		
Within one year	-	-
Between one and five years	-	-
After more than five years	364	364
Other operating leases		
Operating leases which expire:		
Within one year	13	17
Between one and five years	537	509
After more than five years	-	-

NOTE 16 FINANCIAL COMMITMENTS AT THE END OF THE PERIOD

Commitments under operating leases are set out in note 15 above.

At 31 March 2004 the ALI had £nil (2003 £24,000) of capital commitments in respect of furniture, £16,000 (2003 £9,000) for computer equipment and £6,000 (2003 £ nil) in respect of facilities at Spring Place.

Notes to the financial statements

NOTE 17 STATEMENT OF LOSSES AND SPECIAL PAYMENTS

The ALI has the delegated authority, under the terms of its Financial Memorandum with the DfES signed on 25 May 2001, to write off individual losses up to a value of £1,000, subject to an annual limit of £10,000. The ALI also has the delegated authority to make individual ex-gratia payments up to a value of £1,000, subject to an annual limit of £10,000. Above these levels the ALI must seek approval from the DfES to write off losses and to make ex-gratia payments.

The statement below sets out the losses incurred during the year to 31 March 2004 where the sum involved was above the delegated limits:

	2003-04 ITEMS	2003-04 £	2002-03 ITEMS	2002-03 £
Losses (above £1,000) (written down value)	1	1,124	3	3,674
Ex-gratia payments	1	5,000	-	-

NOTE 18 RECONCILIATION OF OPERATING DEFICIT TO MOVEMENTS IN NET FUNDS

	2003-04 £000s	2002-03 £000s
Operating deficit for the period	(294)	(231)
Transfer from deferred government capital grants/reserves	(805)	(559)
Add:		
Depreciation on intangible fixed assets	26	1
Depreciation on tangible fixed assets	707	558
Loss on revaluation of assets	72	29
Notional items	9	15
Decrease/(Increase) in debtors	276	(397)
(Decrease)/Increase in creditors	(178)	699
(Decrease)/Increase in long term creditors	(34)	204
Receipt from sale of fixed assets	1	18
Net cash inflow/(outflow)	(220)	337
Reconciliation of net cash flow to movement in net funds		
Net funds at 1 April 2003	369	32
Net funds at 31 March 2004	149	369
	(220)	337

Notes to the financial statements

NOTE 19 PENSIONS

The PCSPS is an unfunded multi-employer defined benefit scheme but the ALI is unable to identify its share of the underlying assets and liabilities. The last published full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

From 1 October 2002, employees may be in one of three statutory based 'final salary' defined benefit schemes (*Classic*, *Premium*, and *Classic Plus*). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (*partnership pension account*).

Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable pay for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike *classic*, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them from undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Notes to the financial statements

Classic Plus Scheme

This is essentially a variation of *Premium*, but with benefits in respect of service before 1 October 2002 calculated broadly as per *Classic*.

Pensions payable under *Classic*, *Premium* and *Classic Plus* are increased in line with the Retail Prices Index.

Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product.

The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25 per cent of the fund as a lump sum.

From 1 April 2003, employers' contributions were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay based on salary bands up to 30 September 2002. From 1 October contributions were payable at the rates appropriate to each employee's membership of the four new schemes described above. From 1 April 2005 employers' contributions will increase to a range of 16.2 per cent to 24.6 per cent dependent on salary band and from 1 April 2006 further increase to a range of 17.1 per cent to 25.5 per cent. For 2003-04 total employers' contributions of £1,610,000 (2003 £1,418,000) were payable to the PCSPS in respect of all schemes in operation during the year.

There is one (2003 two) employee who has not joined the PCSPS. No payments have been made on their behalf into any other pension scheme. From 1 October all other employees are members of one of the four schemes (*Classic*, *Premium*, *Classic Plus* and *Partnership Pension Account*) described above.

NOTE 20 LEGAL CLAIMS

There was one outstanding claim as at 31 March 2004 and provision has been made in the accounts for the year ended 31 March 2004 for the estimated liability (see note 11). The provision is for an employment related issue which is the subject of a tribunal hearing in June 2004. Any costs which may arise are expected to fall in the 2004-05 financial year.

NOTE 21 CONTINGENT LIABILITIES

There are no contingent liabilities at the Balance Sheet date requiring disclosure at the date of signing the accounts (2003 £nil).

Notes to the financial statements

NOTE 22 RELATED PARTY TRANSACTIONS AND CONNECTED BODIES

The Adult Learning Inspectorate is sponsored by the Department for Education and Skills (DfES) and the Department for Work and Pensions (DWP) which are regarded as related parties. There were material transactions with the DfES in respect of the grant-in-aid (note 2a). In addition, the ALI provided staff on secondment to partner organisations including the DfES (note 3b).

There were also material transactions with the Learning and Skills Council, University for Industry (Learndirect), and the Offenders' Learning and Skills Unit, being entities for which the DfES is regarded as the parent department. These transactions relate to inspections carried out during the normal course of business.

During the year the ALI had similar material transactions with the following public bodies:

- Office for Standards in Education (Ofsted)
- Department for Work and Pensions (Jobcentre Plus)
- Ministry of Defence
- Home Office
- Local Education Authorities

In addition the following members had related party transactions in that they held appointments with organisations which were directly or indirectly related to providers where the ALI carried out inspections or reinspections in the normal course of business:

Paulene Collins, director of quality assurance, the College of Law:

- Basic Skills for Offenders in the Community, National Probation Service
- Lawtrain
- Shrewsbury Sixth Form College
- Shropshire, Telford and the Wrekin Learndirect Hub
- Shropshire County Training
- Shropshire Local Education Authority
- Shropshire Area inspection
- Shropshire and Telford Connexions
- Telford College of Arts and Technology

Balvinder Chana, formerly Senior Projects Manager, Laing Rail:

- Laing's Training Services

David Croll, principal and chief executive of Derby College:

- Derbyshire County Council/Local Education Authority
- University of Derby
- Derby Local Education Authority
- The Prince's Trust

Notes to the financial statements

Margaret Luck, quality and staff development manager, Somerset County Council:
Somerset County Training

Neil Makin, external affairs director, Cadbury Schweppes plc:
Birmingham and Solihull **learndirect** hub
Entry to Employment
Solihull Council

Peter McKee, managing director, TRL Technology Limited:
Stanmore College

Christopher Trinick, chief executive of Lancashire County Council:
Connexions Lancashire
Preston College

No other member, key managerial staff or other related party has been involved in any material transactions with the ALI during the year ended 31 March 2004.

NOTE 23 KEY FINANCIAL TARGETS

The Accounts Direction requires that the notes to the accounts include details of the key corporate financial targets set by the Minister together with the performance achieved. The only specific targets are included as key performance indicators in the annual business plan – the key financial indicators are included in the foreword to the accounts.

The costs per inspection day in 2003-04 were £889 (2002-03 £763) compared to a target of £885 (2002-03 £800). The actual costs are therefore closely in line with the target. A significant element of the increase from 2002-03 reflects the full year costs of the Provider Development Unit.

The proportion of time full-time inspectors spent inspecting in 2003-04 was 67.1 per cent (2002-03 69 per cent) compared to a target of 67.5 per cent (2002-03 71 per cent). Again the actual percentage is close to the target.

The proportion of ALI resources directly attributable to inspection in 2003-04 was 67.3 per cent (2002-03 68 per cent) compared to a target of 65.8 per cent (2002-03 68 per cent). This reflects the underspend on support staff costs in 2003-04 as a result of vacancies and delays in recruitment.

The ratio of inspectors to support staff for 2003-04 was 1.55:1 (2002-03 1.55:1) compared to a target of 1.43:1 (2002-03 1.59:1). Again this variation is accounted for largely by vacancies and delays in recruitment of support staff.

NOTE 24 FINANCIAL INSTRUMENTS (FRS13)

The ALI has no borrowings and relies primarily on departmental grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

the 1990s, the number of people who are employed in the service sector has increased in all countries. The increase is most pronounced in the United States, where the service sector has become the dominant sector of the economy.

The increase in the service sector has led to a decline in the manufacturing sector. This is due to the fact that the service sector is more labour-intensive than the manufacturing sector. As a result, the manufacturing sector has become less competitive in the global market.

The decline in the manufacturing sector has led to a loss of jobs in that sector. This has led to a shift in the labour force towards the service sector.

The shift in the labour force has led to a change in the skills required in the labour force. The service sector requires more skills than the manufacturing sector.

The change in the skills required in the labour force has led to a decline in the demand for workers with low skills.

The decline in the demand for workers with low skills has led to a decline in the wages of those workers.

The decline in the wages of workers with low skills has led to a decline in the standard of living of those workers.

The decline in the standard of living of workers with low skills has led to a decline in the quality of life of those workers.

The decline in the quality of life of workers with low skills has led to a decline in the health of those workers.

The decline in the health of workers with low skills has led to a decline in the productivity of those workers.

The decline in the productivity of workers with low skills has led to a decline in the output of those workers.

The decline in the output of workers with low skills has led to a decline in the income of those workers.

The decline in the income of workers with low skills has led to a decline in the savings of those workers.

The decline in the savings of workers with low skills has led to a decline in the investment of those workers.

The decline in the investment of workers with low skills has led to a decline in the growth of those workers.

The decline in the growth of workers with low skills has led to a decline in the future income of those workers.

The decline in the future income of workers with low skills has led to a decline in the quality of life of those workers in the future.

The decline in the quality of life of workers with low skills in the future has led to a decline in the health of those workers in the future.

The decline in the health of workers with low skills in the future has led to a decline in the productivity of those workers in the future.

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