

Department of Education and Skills
Briefing Paper for the Public Accounts Committee
on the
**C&AG Special Report on Internal Control in County Cork Vocational Education
Committee (no.89)**
Meeting 9th July 2015

The purpose of this document is to provide the Committee of Public Accounts with an overview of;

1. recent and current developments in the ETB sector including details of overall funding, student and staff numbers
2. C&AG special report recommendation for the Department of Education and Skills
3. recent enhancements to the audit and general governance framework for ETBs.

1. Context and Financial Provision

The Education and Training Board (ETB) sector has undergone unprecedented change in recent years. In 2013, the Education and Training Boards Act established 16 ETBs, and the 33 Vocational Education Committees (VECs) were dissolved. For the majority of ETBs, this has involved the amalgamation of the service provided by two, and sometimes three, separate and independent VECs.

In accordance with the ETB Act, the functions of an ETB include to:

- establish and maintain recognised schools, centres for education and education or training facilities;
- plan, provide, coordinate and review the provision of education and training, including education and training for the purpose of employment;
- provide education and training at the request of, and on behalf of, any body which funds training out of money provided by the Oireachtas;
- support the provision, coordination, administration and assessment of youth work services.

As well as the establishment of the ETBs, major changes have also taken place in the co-ordination and funding of further education and training with the establishment of SOLAS in October 2013. SOLAS provide strategic direction and funding for the sector with the bulk of education and training being delivered or contracted by the ETBs. As part of this delivery role and reflecting the integration of further education and training, ETBs have taken on the former FÁS training centres. This process commenced on 1st January 2014 with transfers to four ETBs and was completed on 1 July 2014 with the remaining centres transferred to eight ETBs. SOLAS have developed a Further Education and Training Strategy setting out a major reform programme for the sector for the period to 2019. It has been a significant achievement on the part of the ETBs that these major structural changes have occurred without disruption to the education and training of hundreds of thousands of students and during a time of serious financial challenge and reducing staff numbers.

Change is ongoing and will take a number of years to embed; the new ETBs continue to develop as single entities, adapting organisational structures and practices accordingly and developing their response to their new responsibility for training.

Recognising the need for a sector-wide strategic approach, a reform programme, coordinated by the ETB/SOLAS Project Management Office (PMO) in the Department of Education and Skills, is underway.

The PMO is currently engaged in a project to devise a new organisational design for ETBs and SOLAS in order to reflect their new roles as well as a number of projects to improve systems such as the Payroll Shared Services Project, the Financial Shared Services Project, ICT connectivity and a legal services strategy. A more cohesive approach to procurement in the ETB sector is also being driven through the Public Service Reform (PSR) function located in Education and Training Boards Ireland (ETBI).

There was a significant amount of engagement with VECs in the lead up to the establishment of the ETBs in order to facilitate a smooth transition to the new arrangements. In addition, the Secretary General of the Department began a series of regular meetings with the incoming chief executives of the ETBs and ETBI to provide an opportunity to discuss the many issues that the sector faced as a result of the restructuring of VECs into ETBs.

These meetings have continued to be a regular feature of the Department's engagement with the sector and they provide a useful forum for the Department to update senior management in the sector in relation to the ETB/SOLAS reform programme, to share information and ideas and to discuss areas of concern.

Funding, Staffing and Learners

The Department's General and Post-Primary Grant to an ETB/ VEC is divided between pay and non-pay.

The total pay grant in 2014 amounted to some €703m. Of this, the Department's allocation for teacher pay was €602m approximately, for SNA pay was €26m, for administrative pay is €50m approximately and some €25m for maintenance pay. Pay costs across all headings were also funded by receipts retained by the ETBs of €41m, comprised principally of retained superannuation contributions.

The total non-pay grant in 2014 amounted to some €69m. This was comprised primarily of Department funding of €61m approximately and by non-pay receipts retained by the ETBs in the order of €8m.

Pay covers the cost of sanctioned posts at authorised rates of pay. It is allocated by the Department under instruction, SNA, administration and maintenance pay headings. Teachers' salaries account for approximately 85% of salaries in 2014.

Non-pay covers all items other than pay and grants for certain items/programmes that are provided for separately. The non-pay allocation to each ETB is determined having regard to:

- An estimate of the ETB's expenditure and non-pay receipts (e.g. revenue from night classes);
- Pupil enrolment variation;
- Certain programmes being run by individual ETBs;
- The amount available for distribution (i.e. funding from the subhead and non-pay receipts).

To afford flexibility, a block allocation is made under this heading, giving each ETB a high level of autonomy in its management.

The non-pay grant to individual ETBs has been reduced in recent years. The reduction in exchequer funding follows from the general reduction in per capita funding in the other post primary sectors. There has also been a loss to the ETBs of income from other sources, such as local authority contribution and bank interest.

Funding from the ETB pay and non-pay subheads provides for pay and non-pay running costs in ETB schools, colleges and head offices, as follows:

- 262 schools/ colleges;
- 16 head offices and 8 designated sub-offices;
- 123,000* students;
- 9,650* WTE teachers;
- 1,800* WTE non-teaching staff (executive, administrative and maintenance).
- 800* Special Needs Assistants
(* approximate figures)

2014 Funding

Annual funding to the ETBs from the Department for the financial year ending 31st December 2014 was as follows:

Nett Pay	€ 660,187,794
Nett Non-Pay	€ 39,713,046
Associated Expenditure Grant (e.g. book grant, school services support fund)	€ 16,653,041
Target Expenditure Grant (e.g. DEIS, ICT networks)	€ 5,200,798
Outdoor education centres	€ 2,124,000
Higher Education (Equity of Access) - Student Support Services:	€ 310,699,795
Capital/Rentals	€ 54,530,053
Pensions and Gratuities:	€ 180,423,272
Total	€1,269,531,799

(In relation to Post Leaving Certificate funding related to SOLAS activity, teachers' pay, some capitation and maintenance grants are funded by the Department and are included in the figures above)

In terms of the main current pay and non-pay expenditure headings, Co. Cork was one of the largest VECs, accounting for some 9% of the overall budget for the 33 VECs.

In 2015, funding for Cork ETB will represent some 13 % of the overall allocation.

SOLAS funding

A total of €458,764 million was paid by SOLAS to ETBs for the 14 months period 27th October 2013 to 31st December 2014.

Staffing

In March 2009 the Government introduced a moratorium on recruitment and promotion, with a general exemption in the education sector for “front line” or teaching staff. As a result, ETBs have generally not been allowed to replace Head Office staff or employees such as caretakers, cleaners and administrative staff, although replacement to a minimum threshold is permitted. Non-teaching numbers have reduced from some 2,130 in 2009 in the former VECs to c.1800 in the ETBs at end of March 2015. These numbers do not include the SOLAS training centre staff that transferred to ETBs in two tranches on 1st January 2014 and 1st July 2014. A total of 863 WTE training centre staff transferred from SOLAS to ETBs along with the new training function during 2014. These staff which include instructors, support and ancillary staff are employed in delivery of training in the former FAS training centres which are now under the management of ETBs.

Staff numbers

The approximate WTE staffing levels (ECF/public sector numbers) in the ETBs* are as follows:

2015

Teaching/ Instruction Posts	Special Needs Assistants	Executive/ administrative and maintenance posts	Total
9,665	805	1,800	12,270

*See paragraph above re. training centre staff transferred from SOLAS to ETBs in 2014 and which are additional to these figures.

Participants/learners

The number of second level enrolments in the sector in the 2014/15 school year was 91,600.

A total of 326,727 beneficiaries availed of further education and training mainly funded by SOLAS during 2014.

2. C&AG report recommendation

The Department welcomes the Comptroller and Auditor General’s special report on Internal Control in County Cork Vocational Education Committee. The report sets out what happened in relation to a number of failures of internal control and failures to follow proper procedures. While Co. Cork VEC has been dissolved, its functions were transferred to Cork ETB from 1 July 2013.

The matters covered in the report are as follows:

- Operation of Macroom Youthreach;
- Approval of property leases;
- Legal costs and settlements;
- Other issues:
- Legal settlements
- Omar B Sailing Boat

- St Joseph’s Foundation-cooperation hours;
- Revenue audit.

The report includes one specific recommendation for the Department in relation to eligibility for the Youthreach Programme. The C&AG has recommended that while there is no evidence of a systemic problem, the Department should issue guidelines for the operation of the Youthreach programme which would clarify the limits of discretion for admitting students on an exceptional basis, the documentation of such decisions and relevant authorisation levels.

The Department issued Youthreach Operator Guidelines to all ETBs on 14 April 2015. The guidelines set out the aims and objectives of the Youthreach programme as well as the management, funding, staffing and enrolment procedures to be adopted in operating the programme. They provide clarity on the eligibility of learners for enrolment and the admission procedures that must be in place in centres.

In relation to the remaining matters, the Department has been liaising with the VEC/ETB in relation to the follow through on the recommendations in the audit report.

3. ETB Governance Framework

A number of measures have been implemented in recent years which augment the governance framework within which the ETBs now operate. These include:

i) ETB Act 2013

This Act replaces the VEC Acts 1930 to 2001.

In relation to financial control, it sets out requirements to establish a finance committee and an audit committee, as well as related issues concerning membership of same, reporting and ministerial directions.

The requirements concerning finance encompass expenditure limits, submission, publication and ministerial direction concerning annual service plans, powers and requirements for ministerial approval of borrowing including bank overdrafts, keeping, reporting and laying of accounts, audit functions, and acquisition, holding or disposal of land and accountability of chief executives to Oireachtas Committees.

Among the main differences from the previous statutory arrangements concerning financial control, are;

- providing, on a statutory basis, that an audit committee be established (finance committees were previously a statutory requirement and remain so)
- specifying that members of staff may not be on either the finance or audit committees.

Financial Accountability

Accountability of the Chief Executive to the PAC

In accordance with Section 25 of the ETB Act 2013, the Chief Executive must, when required, give evidence to the PAC on:

- the regularity and propriety of the ETB’s transactions;
- the economy and efficiency of the boards in the use of its resources;
- the systems, procedures and practices employed by the board to evaluate the effectiveness of its operations;

- matters concerning the board that are contained in special reports of the C & AG.

Financial reporting/approval between ETBs and the DES as set out in the Act requires the ETBs to:

- Prepare a service plan each year in accordance with the expenditure limit determined by the Minister
- Seek ministerial consent before incurring expenditure in excess of the approved limit
- Make such modifications to the service plan as the Minister might require
- Secure ministerial approval for borrowings or bank overdrafts
- Keep accounts in such form and manner as the Minister directs
- Submit accounts to the C&AG for audit by 1 April each year (or other date determined by the Minister)
- Comply with internal audit requirements of the Minister or the Minister for Public Expenditure and Reform
- Comply with ministerial directions or regulations concerning the acquisition, holding or disposal of land.

Accountability of the Chief Executive (CE) to the Board

The ETB Act is explicit regarding the accountability of the CE to the board. Section 15(4) states that the CE “shall be accountable to the board for the due performance of his or her functions.”

ii) Circulars

A number of departmental circulars have issued clarifying or reinforcing arrangements concerning ETB finances:

Circular 39/2011: Good Practice Guidelines for the Provision of Goods and/or Services (evaluation of proposals, procurement, approval required for borrowing, reporting of losses, appropriate funding sources)

Circular 15/2013: Requirement for Department approval before providing non-core services (requirement for approval before providing a new programme/activity, evaluation of proposals, review of existing non-core services)

Circular 51/2013: Tax Compliance (alerting ETBs to responsibilities in terms of tax compliance/clearance and relevant Revenue Commissioners’ documents)

Circular 51/2014: Secured Borrowings by schools and ETBs (requirement for Minister for Finance approval to engage in secured borrowing)

Circular 66/2014: Procedures for Borrowing by ETBs (procedures for proposing borrowing and obtaining Ministerial approval)

Circular 18/2015: Code of Practice for the Governance of ETBs (see below)

iii) Code of Practice for the Governance of ETBs

A new code was issued on 16th March 2015, replacing the previous 2005 Code.

The new Code was developed having regard to the Department of Finance Code of Practice for the Governance of State Bodies, the requirements of the ETB sector and changes in the governing legislation, as well as to incorporate certain elements of good practice such as the appointment of external members with relevant expertise to the finance and audit committees.

Guidelines were also issued to ETBs for the appointment of external members of the audit and finance committees.

iv) Terms of Reference for the IAU-ETBs (formerly the VSSU)

Revised terms of reference were agreed by the IAU-ETB Steering Committee and issued to the IAU-ETBs and the ETBs in March 2015. These outline:

- **Scope and independence of IAU-ETB**

The IAU-ETB will carry out its duties in an independent and objective manner and will have procedures in place to demonstrate same.

The scope of internal audit extends to all activities carried on by the ETB regardless of how these are funded or regulated. The internal auditor must have full access to all the records, property and personnel of the ETB in head office, schools and centres for education and training, and must have direct access to the Audit Committee.

The IAU-ETB should only carry out the assurance work programme as set out and approved in the Audit Plan.

In undertaking its function, internal audit will remain independent of the ETB, the Chief Executive, the Department of Education and Skills and the Steering Committee.

The IAU-ETB does not have any role in the executive management of an ETB nor is it a substitute for management. It is free from any operational duties in an ETB.

- **Revised reporting arrangements as follows:**

- **Reports specific to ETBs**

The IAU-ETB will issue two reports specific to an ETB at the conclusion of each audit; a *Findings and Recommendations Report* and an *Opinion Report*.

The *Findings and Recommendations Report* will detail the audit work performed and the recommendations made.

The *Opinion Report*, which provides an overall conclusion on the results of the internal audit, will outline the area or programme audited, the audit method, respective responsibilities of the auditor and executive management, and the opinion as to the adequacy and effectiveness of internal control.

Both reports, once finalised, will be sent directly and simultaneously, under separate cover, to the Chairperson of the Audit Committee and the Chief Executive.

The Chief Executive will provide the DES with a copy of the *Opinion Report* within three weeks of receipt. Where in the *Opinion Report* the internal auditor expresses an opinion that internal controls are inadequate (i.e. deficient, not operating or both), the Department will be provided by the Chief Executive with full details of the item or items giving rise to this opinion. All other internal audit findings and related recommendations should not be communicated to the Department.

In the event that losses have occurred, all such losses will be communicated to the Department by the Chief Executive in accordance with Circular 39/2011 (or any subsequent relevant circular) together with a full explanation and confirmation that internal control issues identified have or will be addressed from a stated date.

- **General Report to Executive Management**

The IAU-ETB will produce "general" reports on audit findings in the sector. Such reports will be sent to the Chief Executive of each ETB in order to assist executive management to identify potential deficiencies and implement necessary improvements to the system of internal control.

- **Ancillary reporting activities of the IAU-ETB**

The IAU-ETB will prepare additional reports only when requested to do so by the Steering Committee and approved by the Department.

v) **Membership of the IAU-ETBs Steering Committee**

The constitution of the IAU-ETBs Steering Committee (formerly VSSU Steering Committee) was amended in 2013. It now provides for an independent Chairperson with relevant governance/financial experience, 3 persons nominated by ETBI, 2 of whom should be external to the ETB sector, and a SOLAS nominee, in addition to the existing members nominated by the CEEOA and the Department.

vi) **V15 Working Group**

A working group was established in early 2015 to review the format of the ETB accounts with a view to enhancing the financial information made available through published accounts to the Oireachtas, the general public and stakeholders.

The group comprises a nominee of the ETBI, finance officers from four ETBs, a representative of SOLAS, a representative from the C&AG's office and two representatives from the Department of Education and Skills, which chairs the group.

The group has met three times and its work is progressing well.

vii) **Enhanced departmental, inter-agency and inter-sectoral governance networks**

The Department's remit encompasses a number of bodies in the education sector including agencies, ETBs and higher level institutions.

Within the Department the Management Advisory Committee (MAC) has established a sub-committee on agency governance. Its role is to support the Department's further development and implementation of robust governance arrangements across the education sector through oversight and regular assessment of its approach to governance.

A Principal Officers' Sectoral Governance and Accountability Network has also been established. Its role is to support the work of the MAC sub-committee by facilitating discussion regarding compliance requirements, to provide feedback, highlighting issues arising in each sector and to disseminate best practice across the Department's bodies.

It has been decided, in principle, to establish an Internal Audit Sector Forum for personnel with internal audit functions in the Department, its agencies, higher education institutes and the ETBs.

Concerning the ETB sector specifically, arrangements are in place for regular meetings between senior management in the Department and the IAU-ETB, and the C&AG. Arising from these meetings, it has also been agreed in principle that issues arising during the course of audits should be brought to the attention of the Department at an early stage; protocols for same, informed by a process currently being commenced for the higher education sector, are to be agreed.

As part of strengthening its role on governance and accountability oversight, the Department is tendering for the supply of services from suitably qualified companies for the purposes of conducting reviews of corporate governance compliance by education sector bodies with their relevant Codes of Practice which underpin their corporate governance frameworks. The HEA is joining the Department in contracting this service in respect of bodies for which it has responsibility.