



Comptroller and Auditor General
Special Report

Internal Control and Governance in FÁS

December 2009

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This report was prepared on the basis of information, documentation and explanations obtained from FÁS. The draft report was sent to FÁS and to the Department of Enterprise, Trade and Employment and, where appropriate, the comments received were incorporated in the final version of the report.

Report of the Comptroller and Auditor General

Internal Control and Governance in FÁS

I have, in accordance with the provisions of Section 11 of the Comptroller and Auditor General (Amendment) Act, 1993, carried out an examination of internal control, governance and related matters in FÁS.

I hereby submit my report on the above examination for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Buckley', with a stylized flourish at the end.

John Buckley
Comptroller and Auditor General

30 December 2009

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Summary of Findings

Summary of Findings

The examination reported below focused on the processing of transactions at FÁS Head Office and governance arrangements for the organisation. It also reviewed the management of the Competency Development Programme and the administration of foreign travel and business expenses.

Overall Examination Findings

The examination found that FÁS had a governance structure that is consistent with its governing legislation and with the Code of Practice for the Governance of State Bodies. It had also a plan of internal control, which, if fully implemented, would have provided sufficient assurance that its transactions were processed in a safe and regular manner.

However, failure to fully implement elements of the plan of control exposed FÁS to the risk of losses as well as the risk of failing to achieve best value for money. The exposures arose from the fact that

- authorisation limits were breached when certain transactions were being initiated
- there were deficiencies in the conduct of tender processes when goods and services were being acquired
- payments were made in the absence of supporting documentation
- confirmation orders for purchases already effected were issued in many instances
- the system of risk management adopted by the Board in 2005 did not function effectively.

Key units failed to detect or react appropriately to non-compliance with internal procedures.

Notwithstanding these procedural deficiencies, the examination found, based on substantive testing of 2008 transactions initiated by Head Office sections, that payments for the transactions sampled were properly chargeable in the FÁS financial statements.

FÁS has begun taking steps to address the control deficiencies identified and, in particular

- the Board has approved a revised set of procurement procedures that include a requirement for managers to make annual declarations of compliance
- training workshops have been held to increase the level of awareness of those procurement procedures
- policies relating to the use of credit cards and revised procedures governing foreign travel were adopted by the Board during 2009 and the use of credit cards curtailed.

The examination also found that considerable scope exists to improve the depth and quality of reporting both in regard to rule compliance and business performance.

In one relatively new programme – the Competency Development Programme – the examination found that

- in its administration, monitoring visits to external training providers were not as frequent as envisaged under FÁS's own procedures
- programme output was not recorded in terms of results such as persons achieving certification

- there was no evaluation of the extent to which the training objectives of the programme were achieved.

Specific Findings

The findings of this examination would suggest the need for adjustments to systems, procedures and practices employed by FÁS. These arise in the following areas:

Risk Management

Ongoing identification and mitigation of risk based on an analysis of the control systems and experience derived from transaction processing is key to safe administration of public money.

Responsibility for drawing up individual risk registers lies with the divisions in FÁS while responsibility for compiling and maintaining a consolidated register lies with the Risk Management Committee (the Executive Board). Coordination of the risk management function is the responsibility of Internal Audit. Risk management in FÁS has not operated as envisaged when the Board approved the current risk policy in 2005 – risk registers and action plans were not kept up-to-date, reporting procedures approved by the Board have not operated as envisaged and there has not been any annual review of the effectiveness of the risk management system.

The Statement of Internal Financial Control for 2008 set out some actions that FÁS proposed to improve the risk management system in the agency.

It is important to ensure that risk management functions operate so that FÁS can make a proportionate, cost-effective response to potential exposures and that factors that impede the operation of pre-established controls can be surfaced and dealt with as appropriate. Greater internal control would ensue if the risk management function were assigned to a separate unit so that Internal Audit can independently review its operation.

Internal Financial Control

FÁS had a plan of control that was adequate but which did not always operate effectively and as intended.

FÁS would benefit from a comprehensive review of its control regime designed to balance its need to control its transaction processing with the pursuit of organisational effectiveness. A paramount consideration should be ensuring that the needs of the population it serves are met in an appropriate and timely manner and that personal initiative and a culture of service are encouraged and fostered. FÁS stated that it intends to carry out a general review of its systems and internal controls.

Communications between Control Units

One of the reasons the control regime did not operate effectively was a poor level of communication between two key units - the Procurement and Financial Accounting units. This, in effect, undermined the operation of key checks and balances. The production of 'confirmation orders' – the examination found that 17% of Head Office purchase orders in 2008 were 'confirmation orders' – reduced the efficacy of the Procurement Unit as a 'gateway control' at the transaction initiation stage. In summary

- There was no communication of contract awards by the Procurement Unit to Financial Accounting.
- In the case of purchase orders, there was a practice of generating post-hoc documentation in instances where goods or services had already been acquired without the Procurement Unit's involvement.
- Financial Accounting failed to notify the Procurement Unit, which has responsibility for procurement in Head Office, when invoices were presented for payment without the appropriate documentation.

An effective separation of functions needs to be established and mechanisms for reporting non-compliance with procedures put in place. In particular, FÁS should consider maintaining a central register of contracts awarded. Breaches of procurement procedures should be reported.

Procurement

In general, there is a requirement for Government agencies to follow a competitive process carried out in an open, objective and transparent manner. Agencies may depart from this requirement in exceptional circumstances under both national and EU procurement rules.

FÁS should specify the circumstances in which departures from competitive procurement processes may occur and put in place a mechanism to ensure that all such departures, including those due to urgency or the use of services for which there is only one supplier, are approved at the appropriate level and the extent of departures reported to the Board.

Compliance Reporting

A key set-piece which affords an opportunity to review compliance is the development of the annual report from the Chair of the Board to the Minister as required under the Code of Practice for the Governance of State Bodies. This report is supported by a Compliance Register. The emphasis in reporting through the Compliance Register process needs to shift to a confirmation of the effective operation of controls. FÁS has taken some steps to address this in regard to procurement – from the end of 2009, managers with responsibility for procurement will be required to make annual declarations that any procurement carried out in their units has been done in accordance with required procedures.

The purpose of the Board's annual review of compliance with internal control is to confirm actual compliance and any reservations should be reported in a way that allows the Board to take them into account in the course of its review.

One option would be to require managers to make declarations – similar to those being introduced in regard to procurement – for other requirements of the Code of Practice for the Governance of State Bodies. All of the declarations should be supported by evidence and reviewed by Internal Audit, on a sample basis.

Annual Review of Internal Controls

In its Statement on the System of Internal Financial Control the Board noted that the Audit Committee, on behalf of the Board, conducted a review of the effectiveness of the system of internal financial control.

The Board should assume direct responsibility for the annual review of the Compliance Register and the Statement of Internal Financial Control as the Audit Committee is itself an element in the overall plan of control.

Internal Audit

The Audit Committee, which is a sub-committee of the Board, has the responsibility, with management, to review the activities of the internal audit function. An external review of the internal audit function found, *inter alia*, that not all of its recommendations are implemented in a timely manner.

The extended timescale in finalising the investigation into allegations relating to the Corporate Affairs section meant that remediation of certain deficiencies was delayed.

Recommendations should be classified by Internal Audit in terms of their significance. The most important ones should be escalated to Director level if not dealt with by management and followed up with re-audit where appropriate. In order to ensure that the Board of FÁS is informed at the earliest opportunity of significant matters identified by Internal Audit that may impact on governance, control and accountability a mechanism for facilitating timely reporting, including interim reporting where appropriate, should be put in place.

Board Information

Financial information presented to the Board was sufficient to allow it to identify variances from budget at programme level but not to identify them below that level. The Board was not aware of overspends on advertising and promotion although the Executive Board was.

Financial and activity information presented to the Board should identify and provide in-depth explanations of significant expenditure or activity variances.

Delegation of review functions to a Board sub-committee could improve control in this area. Because emerging circumstances can dictate that budgets be adjusted especially in an organisation of the scale of FÁS, budgetary reviews should take place in the course of each financial year.

Performance Reporting

A clear focus on outcomes is best achieved through implementing a performance management system that captures, and appropriately distinguishes between outputs, performance measures and other indicators. Currently, the Board is presented annually with a report on progress in implementing strategy. For 2008, the report included a checklist setting out performance against target for around 80 items covering a wide range of different measures.

Performance reporting to the Board would be improved through reporting separately on operational performance measured, to the extent possible, against quantifiable targets, change management actions set out in terms of time-bound activities and stakeholder satisfaction ratings.

Competency Development Programme

Expenditure on the Competency Development Programme amounted to €126 million in the six years from 2003 to 2008. Over 90% of the expenditure was paid to external training providers. In four years of rapid expansion from 2005 to 2008 training was provided to over 100,000 participants. New commitments under the programme ended in early 2009.

The examination found that there were gaps in monitoring of the training delivered by the external training providers – around half of courses reviewed by the examination or Internal Audit in FÁS had not been the subject of a monitoring visit.

In addition, there were deficits in the information collected which hindered FÁS's capacity to assess the achievement of the programme's objectives. In particular, the extent to which participants achieved certification was not recorded.

FÁS should, when using external training, assure itself of the delivery and quality of training through

- appropriate monitoring of courses provided by external training providers
- recording outcomes in terms of certification achieved by participants.

A positive feature of the use of external training provision in the case of the Competency Development Programme was that it allowed for a rapid expansion of the programme in response to the perceived need at the time.

Foreign Travel

FÁS incurred around €3 million on flight costs in the period 2002-2008. It is obliged to operate in accordance with the appropriate foreign travel policy issued by the Department of Finance. Prior to 2009, when the Board adopted a set of foreign travel procedures, FÁS did not have a written foreign travel policy although it had notified staff of procedures to be followed when booking flights. Around one-third of flights (in value) in the period under review were booked outside those FÁS internal procedures.

A comparison of the class of travel used by FÁS with that used by 20 other public sector bodies surveyed in the course of the examination found that FÁS used business class for a lower proportion of long-haul flights but for a higher proportion of short-haul flights than the other organisations. First-class flights were used by FÁS personnel in four instances.

Over one-quarter of all flight costs were incurred on the Science Challenge Programme and over €200,000 of this was for travel by non-FÁS personnel. Some of the costs incurred for non-FÁS personnel were for Ministers or civil servants who were involved in promoting FÁS programmes.

The Department of Finance's revised foreign travel policy issued in July 2009 provides that organisations should not fund the travel costs of those who have no direct connection with the organisation other than in exceptional circumstances.

FÁS should amend its travel policy to explicitly address the circumstances in which travel costs of external persons may be charged as business expenses.

When travel is undertaken by Ministers or civil servants, in order to associate the costs with the business of the Department (which may coincide with promotional activity of State Bodies), it would be preferable in the interests of transparency, and in order to ensure that the costs are allocated to the appropriate service, if all such expenses were discharged by the relevant Department and charged to its Vote.

Business Expenses

FÁS incurred around €1.7 million in business expenses in the period 2002 to 2008. Tests on a sample of payments showed that there was, generally, an identified business purpose for expenditure reviewed and regard for economy in incurring those expenses. However, the examination also noted some instances where there was no stated business purpose for expenditure including that incurred on golf fundraising events, on concert and match tickets as well as associated hospitality. Limousine services were also used when more economical forms of transport would have been appropriate.

Clear guidelines covering, *inter alia*, the nature of expenses that can be incurred and the requirement to clearly document the business purpose of the expenditure when claiming reimbursement should be set out.

Use of Credit Cards

Controls over the use of credit cards were weak with payments being made prior to receipt of supporting documentation or authorisation. This gave rise to expenditure where the business purpose turned out to be unclear or the expenditure did not appear to be economic.

The introduction of a credit card policy in 2009 has strengthened internal control in this area. More generally, credit cards form part of banking arrangements and Board approval for their issue should also be sought.

Internal Control and Governance in FÁS

1 Introduction

1.1 State bodies should have appropriate systems to direct and manage their businesses. The nature of those systems will depend on the task environment in which the body operates. This report examines the adequacy of the systems operated by FÁS. Under its statutory remit FÁS is tasked with training persons who are unemployed (and since 2000 training persons with disabilities) as well as upskilling of people in employment and administering apprenticeships.

Previous Reports on FÁS

1.2 In late 2006, FÁS Internal Audit issued a report on procurement and related matters in the Corporate Affairs section of the agency. That report formed the basis of a Special Report¹ issued in April 2008. The Special Report raised concerns around the extent to which value was achieved, whether certain procurement was open, transparent and competitive and the manner in which a major website project was managed. The report was considered by the Committee of Public Accounts following which it issued an interim report in February 2009.

1.3 In its interim report, the Committee recommended that certain matters should be considered by me in the course of follow up examinations which were then underway. A Special Report² examining the control over advertising and promotional expenditure, the general strategy under which it was administered and the extent to which its effectiveness was evaluated was issued in June 2009. This report addresses further issues in the context of the arrangements for governance and internal control operated by FÁS.

Governing Legislation and Codes of Practice

1.4 FÁS was established in 1988 under the Labour Services Act, 1987 (the Act). The Act sets out the principal functions of the agency and also provides that the Minister can confer such additional functions on it as he or she sees fit. FÁS operates under the aegis of the Department of Enterprise, Trade and Employment (the Department) and the role of the Department in overseeing the activities of FÁS is also defined in the Act.³

1.5 As a State body, FÁS must operate under general corporate governance arrangements promulgated by the Minister for Finance. The Code of Practice for the Governance of State Bodies⁴ sets out those arrangements.

Scope of the Report

1.6 My audit opinion on the financial accounts of FÁS for 2008 was signed on 21 September 2009. As part of the audit work, I reviewed the Statement of Internal Financial Control (SIFC) to determine whether it reflected FÁS's compliance with the Code of Practice for the Governance of State Bodies and the steps being taken by the agency to address any shortcomings. The SIFC is

¹ Chapter 2, Special Report 10: General Matters arising on Audits – Non-Commercial State Sponsored Bodies, Health Sector Bodies, Vocational Education Committees, Comptroller and Auditor General, 2008.

² Special Report Number 66, Advertising and Promotion in FÁS, Comptroller and Auditor General, 2009.

³ Section 12 of the Labour Services Act, 1987.

⁴ The Code of Practice for the Governance of State Bodies, Department of Finance, October 2001 and updated in June 2009.

included as part of the Chairman's Report to the Minister for 2008. It outlines the alterations in governance and control made by the Board and is included as part of Appendix A to this report.

1.7 Overall, a body like FÁS can only function effectively if it has appropriate governance organs and routines and manages its ongoing business in an orderly structured manner. This report set out to examine

- the control FÁS exercises over the management of its Head Office transactions
- the control over its business expenses
- the arrangements which it has in place to govern its affairs and
- certain other matters of financial management or governance that arose out of the financial audit of FÁS.

1.8 During 2009, the Internal Audit unit in FÁS conducted an in-depth review of transactions initiated by the Corporate Affairs section. The examination, where possible, avoided duplication with the Internal Audit work. In the course of conducting the examination, reports arising from the Internal Audit work completed were made available to the examination.

1.9 In general, the focus of this report is on the lessons learned from the shortcomings, the proposal to address any deficiencies surfaced and the opportunities for improving the systems, procedures and practices of FÁS.

Structure of the Report

1.10 The results of the examination are set out in the four Chapters that follow. Chapter 2 examines transaction processing at Head Office level including, *inter alia*

- the result of extended testing of a sample of transactions designed to examine the correctness of the charge to the accounts arising from them (substantive accuracy) and
- the extent to which there was adherence to FÁS internal control systems in processing Head Office transactions (procedural compliance).

Chapter 3 examines how business expenses, including travel and credit card facilities, were handled, Chapter 4 reviews internal governance arrangements and Chapter 5 examines performance reporting, the provision of information to the Board and the delivery of a programme for training the employed – the Competency Development Programme.

2 Control of Head Office Expenditure

2.1 This chapter examines financial administration by units at FÁS Head Office and, in particular, the substantive and procedural correctness of transactions processed by them. Business expenses are reviewed in Chapter 3.

2.2 A sample of Head Office transactions selected at random⁵ was assessed in two phases

- substantive testing was conducted by staff of my Office
- procedural compliance was assessed by a firm of auditors.

Where the firm's findings identified issues that required further investigation that work was conducted by way of in-depth follow up by staff of my Office. The review went on to explore the wider implications of any issues identified in the course of this sampling exercise.

Substantive Accuracy

2.3 In view of the control shortcomings in the operations of certain Head Office functions noted in the course of an examination of advertising and promotion, I considered it prudent to conduct a check of 2008 transactions and the related payments initiated by all Head Office sections. The results, which were taken into account in my opinion on the financial statements of FÁS for that year, are outlined below.

2.4 Substantive testing sought assurance in respect of each transaction in regard to its occurrence, the correctness of the charge to the financial statements, the business purpose of the transaction and adequacy of its classification in the accounting records. The total sample chosen consisted of 100 transactions with a value of €3.1 million.⁶ Figure 2.1 summarises the final results of these tests.

Figure 2.1 Substantive Testing of Head Office Transactions, 2008

	Transactions Tested ^a	Positive Assurance	Issues
Occurrence ^b	100	99	1
Charge correct ^c	100	99	1
Business purpose ^d	100	99	1
Classification ^e	100	99	1

Notes: a The sample was selected independently of the examination work for Special Report 66. Because the Corporate Affairs section is part of FÁS Head Office some transactions in the sample were also included in that report.

b 'Occurrence' denotes that transactions recorded occurred and pertained to FÁS. It included testing for evidence that the goods or services to which the transactions related had been delivered.

c 'Charge correct' indicates whether the value of the transactions had been recorded correctly in the books and accounts of FÁS.

d 'Business purpose' denotes that the transactions are appropriate to the business of FÁS.

e 'Classification' indicates whether the transactions have been recorded and reported under the correct heading in the books and accounts of FÁS.

⁵ Using probability proportional to size.

⁶ The sample was selected from transactions totalling approximately €21 million in respect of goods and services procured by Head Office units. The sample value represents approximately 14% of those transactions.

2.5 One of the transactions could not be shown to have resulted in effective expenditure. It is the subject of litigation. The testing indicated that apart from this transaction the chargeability to the accounts for the sample of 100 transactions was correct.

Overall, the results of the substantive testing confirmed that expenditure in respect of transactions that were initiated in Head Office units were properly chargeable in the financial statements of FÁS.

2.6 The results of testing, however, also indicated that for around 10% of the transactions tested transactions had been classified incorrectly for account codes below programme level. This has implications for the accuracy of management accounting.

Procedural Compliance

2.7 Administrative systems for organisations of substantial size can only function effectively where they are systematic and ordered. While, as indicated above, assurance was obtained about the proper chargeability of the transactions examined, the same sample of transactions was also reviewed to determine whether there was compliance with FÁS procedures and controls in the course of their processing. In particular, the transactions were reviewed to ensure that

- there was valid transaction initiation (commitment)
- there was a competitive procurement process, where appropriate, and
- the payment was duly approved.

2.8 In the time available, the firm of auditors could not independently verify a number of matters mainly due to a lack of adequate supporting documentation. In particular,

- it was not, initially, possible to confirm transaction authorisation in 17 instances. Reasons included unavailability of signed commitment documentation, some instances where it was not possible to determine the value of a contract and the fact that certain signatories were not on the staff listing provided by FÁS
- adequate supporting procurement documentation was not available for 13 transactions
- while much supporting documentation was provided to the auditors by the transaction initiating sections, the auditors could not verify whether the information presented had been made available to the Finance or Procurement units when the transactions were being processed.

2.9 The unavailability of adequate supporting documentation for some transactions undertaken by FÁS meant the audit firm was unable within a reasonable timeframe to vouch⁷ certain transactions. The examination by my officers, therefore, carried out additional work in regard to those transactions. Figure 2.2 below reports the final results of the testing following that additional work.

⁷ To support by satisfactory evidence.

Figure 2.2 Procedural Compliance of Head Office Transactions^a

	Transactions tested ^b	Positive assurance	Issues
Commitment	98	93	5
Procurement	98	90	8
Payment approval	98	97	1

- Notes: a Some transactions failed more than one test. In all, 10 transactions failed some test.
 b One transaction which related to a health and safety training course was excluded as the course did not proceed and a credit note was issued to FÁS.

The fact that follow up procedures had to be adopted to vouch this sample indicates that the maintenance of records needs to be addressed so that an independent assessor can readily confirm their accuracy. In the interests of transparency, FÁS should keep adequate original documentation to provide those reviewing the entity's transactions with sufficient evidence to allow them to vouch the transactions.

Matters Arising from Testing

2.10 As indicated in Figure 2.2 positive assurance was obtained in regard to compliance of the majority of the transactions with FÁS's internal procedures. Two of the transactions, with a total value of around €640,000,⁸ related to the contract for the Opportunities 2008 venue which was referred to in Special Report 66. These transactions failed the competitive procurement test since no competitive process was held. One of the payments, a deposit of €260,000, failed the procedural tests in regard to commitment as the transaction was not authorised at the appropriate level. Prior to paying the balance of around €380,000, retrospective Board approval was obtained for the contract. Issues that arose in the areas of commitment, procurement and payment for the remaining transactions are outlined below.

Commitment

2.11 In order to commit FÁS to expenditure, the initiation of a transaction must be authorised at the appropriate level within the organisation. For the transaction authorisation to be meaningful, it must be given prior to the expenditure being incurred. The estimated value of the proposed expenditure determines the level at which the commitment should be authorised.

2.12 Of the remaining 96 transactions tested, transactions could not be confirmed to have been initiated correctly in four instances. The review found that

- There was no evidence that one transaction to the value of €13,400 had been authorised.
- For three transactions,⁹ with a total value of around €11,000, the authorisations were signed after the goods and services had been delivered.

⁸ The estimated cost when the contract was signed was €590,000. The final cost was €640,000. There were two transactions recorded – the deposit when the contract was signed and the payment of the balance of the contract value.

⁹ One of the transactions, for €3,900, related to a training course which was provided by another Government department. At the time the course was provided, FÁS did not know if a charge would be incurred for the training. It was only after the course had been provided that FÁS became aware that a charge would be incurred.

Procurement

2.13 Public procurement norms require organisations to provide potential suppliers with the opportunity to bid for contracts. FÁS has procedures approved by the Board that stipulate how this requirement should be met. Excluding the two transactions relating to the contract for Opportunities 2008, procurement issues arose with six other transactions

- One transaction of €48,400 was in relation to a consultancy. This contract should have been tendered but was not – however, it was advertised on a FÁS website.
- For five transactions, with a total value of around €35,000, there was a failure to seek quotations from more than one potential supplier. In two instances, two written quotations should have been sought and in the others three written quotations were required.¹⁰

Payment

2.14 Invoices may be approved for payment in either of two ways - by matching them with the related purchase order and goods received reference on the accounting system or, in circumstances where a purchase order was not raised, by the initiating section confirming that the goods or services were received and the invoice details are correct. Payment of the invoices should be approved by the Finance section or, for payments above a certain value, by an Assistant Director General or the Director General. There was no evidence of approval by the Finance section for one payment totalling around €20,000. The payment was supported by an invoice that had been approved by the initiating section.

Notwithstanding the substantive accuracy of most payments, there were breaches of established control procedures which, if exploited, could expose FÁS to loss.

System Implications of Control Shortcomings

2.15 The procedural shortcomings outlined in the previous section led to a further review of certain transaction processing controls in order to determine whether the shortcomings were widespread.

2.16 The established procedures laid down in FÁS envisage separation between the transaction authorisation, procurement and payment functions. While the extent of controls put in place to mitigate risks varies depending on an organisation's size and complexity, in general a key element of the internal control procedures governing the procurement of goods or services in larger organisations is separation of functions.

2.17 Two key units that guard the internal control regime and the regularity of payment processing are the Procurement and Financial Accounting units. They both form part of the finance function

- It is a requirement under the FÁS procedures that procurement in Head Office, with some exceptions,¹¹ should be carried out by the Procurement Unit. This is designed to ensure

¹⁰ For three of the transactions, the documentation noted that there was only one provider of the services being purchased and that, therefore, quotations were not required from possible alternative suppliers. The examination did not agree as the services were such that other suppliers could have been sought.

¹¹ The exceptions include contracted training for which there is a separate set of procedures.

that there is separation of duties between those who initiate a purchase and those who carry out the procurement.

- Financial Accounting has responsibility for approving and processing payments. It should approve payment of an invoice only when it is satisfied that expenditure has been appropriately authorised and that the goods and services specified on the invoices presented for payment have been properly procured and have, in fact, been delivered to the agency.

2.18 In order for this separation of functions to operate effectively each function must discharge its responsibilities independently. Each should notify management when it becomes aware that breaches of procedures have occurred so that these can be addressed at the appropriate level.

Transaction Authorisation

2.19 The authority to initiate transactions and incur expenditure for or on behalf of FÁS or to commit FÁS financially in a contract or a binding agreement lies with the Board. The Board, through the Financial Authority Levels and Procurement Procedures which it has approved, delegates this authority to management for expenditure up to specified limits. The procedures specify the authority of the various grades to commit FÁS to financial transactions.¹²

2.20 Evidence of authority to enter into a transaction is generally provided by completion of a Request for Purchase Form.¹³ The form should be submitted to the Procurement Unit which carries out the procurement and enters into a contract with the selected supplier. The contract document may take the form of either a signed contract or a purchase order issued by the Procurement Unit. Invoices submitted to Financial Accounting for payment should be supported by one of these documents.

In addition to the instances noted from the sampling exercise there was evidence that transaction initiation rules were not observed in a number of cases. Some examples are set out in Appendix B, the majority of which relate to transactions that were initiated by the Corporate Affairs section.

Procurement of Goods and Services

2.21 FÁS procedures require procurement in Head Office to be carried out by the Procurement Unit on foot of properly authorised requests for goods and services from other units. FÁS requires a formal tender competition to be held when the expected value of a purchase or contract exceeds €20,000. The internal procedures place the responsibility for the management of tenders on the Procurement Unit or jointly between a purchase requestor and that Unit. For example, the purchase requestor and the Procurement Unit should jointly agree a tender document, evaluation criteria and appointment of the evaluation team which should include representation from Procurement. The Procurement Unit has responsibility for retaining all tender documentation.

2.22 The examination identified instances where the Procurement Unit had not managed the procurement of goods and services including where

- confirmation orders were generated after the procurement had been carried out by other units and
- invoices were supported by contracts that had not been awarded by the Procurement Unit.

¹² For example, a Director may authorise normal operating expenditure up to €150,000 and the Director General up to €250,000 while Board approval is required for expenditure above this limit.

¹³ For items of capital expenditure, a Capital Appropriation Request Form is completed.

Confirmation Orders

A purchase order that is issued after receipt of the goods or services is referred to as a confirmation order.

Confirmation orders usually occur in circumstances where Financial Accounting returns an invoice that has been presented for payment to the transaction originator due to inadequate procurement documentation. In order to obtain the appropriate document – a purchase order – the transaction originator approaches the Procurement Unit with a request for purchase for the goods or services even though these have already been received. The Procurement Unit then raises a purchase order on foot of the request for purchase. When the invoice is re-presented to Financial Accounting with the purchase order, it is paid.

2.23 In regard to instances where purchase authority was retrospectively granted after the transaction had been effected, the examination found that, in 2008, 17% of these purchase orders were confirmation orders of which 30% related to transactions initiated in the Corporate Affairs section and 70% to transactions initiated in other units in Head Office.¹⁴

2.24 The examination reviewed a sample of 50 of these confirmation orders. In 17 instances it was clear from a review of the documentation presented to the Procurement Unit that a request sought a retrospective purchase order – for example, on some occasions the invoice date, which pre-dated the request for purchase, was referenced on the request indicating that the goods or services had already been supplied. The examination found no evidence to suggest that the Procurement Unit challenged those who requested confirmation orders.

The examination did not find any evidence that Financial Accounting raised the issue of invoices being presented for payment without the correct supporting documentation with either the Procurement Unit or with management at higher levels than those who initiated the transactions.

2.25 In regard to the award of contracts, the examination identified a number of instances where there were failures in the tender process including

- failure to assess tenders in accordance with pre-determined criteria
- no evidence that a proper evaluation had been carried out
- inadequate involvement in or inadequate supervision of the tender process by the Procurement Unit
- inadequate tender documentation maintained by the Procurement Unit and
- award of contracts by units other than the Procurement Unit.

Examples are included in Appendix B.

¹⁴ Over 3,200 purchase orders were raised for Head Office purchases.

The tendency of the Procurement Unit to respond to breaches of FÁS procurement rules by issuing confirmation orders militated against effective control. The risk of breaches of transaction authorisation and procurement procedures was substantially increased by Financial Accounting's practice of returning an invoice to the originator of a transaction where a purchase order or contract was absent and to subsequently pay the invoice when presented with a purchase order that post-dated it without making further enquiries or reporting these apparent breaches.

The bypassing of the Procurement Unit for certain purchases had a number of implications

- there was not always evidence that an appropriate competitive procurement process had been undertaken
- the separation of duties between transaction initiators and procurement of goods and services did not operate
- the achievement of the best value was less likely to be obtained
- payments were made where procedures had not been followed but there was no notification of these breaches to senior management.

There was no evidence that the Unit reported the breaches of procurement controls to managers of those who had carried out the procurement.

Procurement by Government agencies must be conducted in accordance with EU and national regulatory requirements and guidance issued from time to time by the Department of Finance. In general, there is a requirement to follow a competitive process carried out in an open, objective and transparent manner. Agencies may depart from this requirement in exceptional circumstances under both national and EU procurement rules. Using the Department of Finance guidance for reference FÁS should specify clearly when departures from competitive procurement processes may occur and put in place a mechanism to ensure that all such departures are approved at the appropriate level, reviewed prior to award by either Internal Audit or an appropriate senior officer who was not part of the procurement process and the extent of such departures reported to the Board.

Receipt of Goods and Services

2.26 In addition to satisfying itself that invoices that are presented for payment are in respect of transactions that have been authorised at the correct level, Financial Accounting needs to satisfy itself that the goods or services have been received. FÁS procedures state that evidence of receipt of goods or services must be provided by the original requestor or by another staff member in their area with the authority to attest on that person's behalf. When a purchase order has been generated, evidence of receipt must be signed and sent to a stores section which has the authority to record this on the financial system. In practice, evidence of receipt is often provided by way of email. For goods and services where a purchase order has not been generated, the invoice is signed as evidence of receipt of the related goods and services.

FÁS procedures provide that initiation of a transaction and confirmation of receipt of the goods or services may be carried out by the same person. In order to ensure that the combination of these functions does not lead to financial exposure it would be important that the procurement and payment approval functions operate in accordance with procedures.

2.27 Special Report 66 noted that over €600,000 had been spent on certain promotional goods and services on foot of 47 invoices. Despite the fact that confirmation of receipt had been

provided, there was no evidence of any goods or services having been supplied. A manager had relied for assurance on the subject matter expert who had initiated the transactions.

2.28 Revised procedures have strengthened controls in this area somewhat

- for goods in excess of €250 the Stores section is now required to physically inspect the goods prior to confirming receipt on the financial system
- for services that exceed €25,000 a purchase initiator's manager will be required to confirm receipt on the financial system. However, the system has not yet been configured to provide for this.

Recognising that there are limits to the extent of control and segregation of duties that is possible without impacting adversely on efficiency the changes are a proportionate response to the risk. There remains a residual risk with services, particularly where these are of a specialised nature, that payments could be made where nothing has been delivered or where what has been delivered does not meet the specification. That risk can also be mitigated through the vigilance of managers in satisfying themselves that goods or services of a specialised nature, procured as a result of transactions initiated by staff in their areas of responsibility, have been delivered to FÁS and that they are of the required standard.

Payment for Goods and Services

Payments on Foot of Invoices

2.29 FÁS procedures state that approval of invoices for payment should only be given when the Finance function is satisfied that internal procedures in respect of the incurring of expenditure on behalf of FÁS have been followed. The procedures also state that the major responsibility lies with line management to ensure implementation of and adherence to the procedures. The Financial Accounting Unit is responsible for processing payments to suppliers for Head Office transactions. The Unit has the authority to examine documentation supplied to it and to refer back to management in circumstances where further details or assurances are required.

2.30 Under FÁS's procedures the Procurement Unit has responsibility for awarding contracts. For invoices supported by a contract, Financial Accounting should satisfy itself that the transaction is authorised at the appropriate level by checking that the person signing the contract on behalf of FÁS has the authority to authorise a transaction at that level. Where a contract requires Board approval, the minute of the Board meeting at which the approval was given should be attached. However, the examination found some instances where contracts that required Board approval were paid despite the absence of this approval. Some examples are set out in Appendix B.

2.31 An additional exposure arises out of the fact that when an invoice on foot of a contract is presented for payment to Financial Accounting it is not supported by documentation to indicate to Financial Accounting whether and to what extent the Procurement Unit¹⁵ was involved in the purchase. As a result the Financial Accounting Unit paid invoices that were supported by contracts that had not been awarded by the Procurement Unit.

¹⁵ The FÁS Financial Authority and Procurement Procedures state that certain procurement, including all Head Office purchases, can only be carried out by the Procurement Unit. The Procurement Unit must agree tender documents jointly with the unit requesting procurement, evaluate tenders jointly with that unit and award all contracts for procurement that is its responsibility. The Procurement Unit must also retain all supporting documentation for a tender process. However, the procedures do not state that the Procurement Unit is required to be a signatory to the contract.

A contributory factor in the failure to act when procurement takes place outside the Procurement Unit is the poor level of communication between the Procurement and Financial Accounting units

- Procurement does not notify Financial Accounting when contracts are put in place and
- Financial Accounting does not contact Procurement when it is presented with an invoice where, on the face of it, expenditure authorisation and procurement procedures may not have been followed.

In practice, it is not possible for the Financial Accounting Unit to monitor expenditure authorised and committed under contracts as they are not recorded on the financial IT system and there is no central record of contracts and the amounts committed under them. The Financial Accounting Unit may not be aware of the existence of contracts until an associated invoice is presented for payment.

FÁS should consider keeping a central register of contracts awarded which could be maintained by a section separate from the Procurement Unit which would notify those maintaining the register when contracts are awarded while Financial Accounting could be required to refuse requests for payments supported by contracts not on the register. The register could record whether contracts were properly awarded and those maintaining it would be required to notify senior management when serious breaches of procurement procedures occur.

Credit Card Payments

2.32 An area where separation of functions cannot operate effectively is in the case of payments made by credit card. Over the period 2002 to 2008, sixteen individuals were issued with credit cards by FÁS.¹⁶ All but one of the credit cards were cancelled by early 2009. The card that has been retained is mainly used for the purchase of library materials. Chapter 3 outlines the expenditure made using credit card facilities.

Credit cards were issued to staff without recourse to the Board for approval. Credit cards form part of an organisation's banking arrangements. Entering into new banking arrangements including opening of new accounts requires Board approval. The issuing of credit cards, and the conditions attached to their use, should have been subject to Board approval also.

2.33 While the intention was to ensure that staff would not be out of pocket through having to pay for corporate entertainment and associated expenditure, especially when abroad, the usage of the cards was far more widespread than that. Much of the expenditure incurred on the cards could have been processed in a different way – either through the normal procurement procedures in FÁS or through individuals paying for the goods or services and then claiming reimbursement from FÁS. This would have contributed to a more rigorous scrutiny of expenditure including prior authorisation of much of the expenditure where possible.

2.34 Credit card statements were generally authorised by a cardholder's immediate manager – however, the former Director General approved the expenditure on the two cards he held. Credit card bills were paid by way of direct debit prior to the authorisation being given.

¹⁶ Of the sixteen credit cards issued to staff four were replacement cards in respect of library staff changes.

Payment by direct debit removed a key control from the payment process – that all payments should be approved by the Finance function when it is satisfied that expenditure has been incurred in accordance with FÁS procedures.

Management Response

2.35 The revised internal procedures adopted by the Board in March 2009 set out how breaches of procurement procedures will be dealt with under FÁS’s disciplinary procedures.

Extract from FÁS Financial Authority Levels and Procurement Procedures

Breaches of Procurement Procedures

In the light of the serious responsibility on FÁS to ensure propriety in its purchasing/procurement policies, procedures and activities unauthorised deviation from the designated procurement procedures and processes will be referred for appropriate consideration under the organisation’s disciplinary procedures.

While the main responsibility rests with line management to ensure compliance with procurement procedures, the Procurement Unit and the Financial Accounting Unit in Head Office as well as the Stores and Finance and Administration units in the regions have a specific responsibility and authority to refer back to line management any transaction that does not fully comply with procurement procedures. Any breaches of procurement procedures should be brought to the attention of the Director General and the Head of Internal Audit. All steps should be taken to ensure that procurement procedures are fully observed.

Annual Declaration

From the end of 2009, all staff with authorisation to incur expenditure for or on behalf of FÁS (Grade 7 and higher) will be required to sign an annual declaration as follows

“I hereby confirm that in purchases made by me on behalf of FÁS, I have complied fully with FÁS Procurement Policies and Procedures.”

2.36 FÁS has also taken some steps, through a series of training workshops for staff which were completed by September 2009, to increase the level of awareness of the procedures to be followed when procuring goods and services.

General Conclusions

The plan of control put in place by an organisation is contingent upon the inherent risks it faces, its size and the complexity of its operations. In general, the procedures that had been laid down by the Board, if fully implemented, would have yielded an adequate control regime.

In addition, transactions processed were in the vast majority of cases for the benefit of the agency and the transactions comprised in its annual accounts were for the objectives of the organisation.

Notwithstanding this, there were deficiencies in the application of the plan of control. These included

- failures to operate the established internal control framework involving
 - breaches of transaction authorisation limits
 - procurement at Head Office being carried out by line units and not, as required, by the Procurement Unit
 - deficiencies in the conduct of tender processes and
 - a lack of proper documentation and sharing of information on contracts.
- failures to react to non-compliance through
 - an excessive use of post-hoc authorisation of transactions already effected
 - non-raising of breaches of procedures with management at higher levels than those who initiated transactions by either the Procurement or Financial Accounting units.

It is recognised that administrative units face a constant dilemma of balancing an attitude of service to the organisation and controlling its processing. In many instances, their capacity to carry out their task is a function of how they are resourced. This ultimately is something that should be considered annually as part of the risk management review that underpins the adoption by boards of their Statements on the System of Internal Financial Control.

Key units like Financial Accounting and Procurement did not operate as control functions particularly when they facilitated post-hoc documentation. This undermined the capacity of the established plan of control to operate as intended.

FÁS could benefit from a fundamental review of its control regime. Recognising that the cost of control must be proportionate to its desired benefits, such a review should take account of

- an assessment of the risks which the organisation must address by means of fully functioning controls
- the imperative that the control regime underpin organisational effectiveness, the capacity of FÁS to respond to the demands of the client base it serves and the need to promote a positive culture of service and personal initiative.

FÁS has taken steps to curtail the use of credit cards for the acquisition of and payment for goods and services. In general, the issue of credit cards should be approved by the board since they form part of banking arrangements.

A model that might be considered when conducting a review of the control regime is the Enterprise Risk Management - Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) which places an entity's objectives in four distinct but overlapping categories

- strategic – the high level goals
- operations – efficient and effective use of resources

- reporting – reliability of reporting and
- compliance with applicable legislation and regulations.

The framework aids the comprehensive identification of the components of effective risk management across an entity including objective setting, the internal environment, risk identification, assessment and responses, control activities, information and communication and monitoring. It emphasises the importance of these functioning effectively and in a balanced fashion across all of the four categories of objectives.

3 Business Expenses

3.1 Expenses charged to public bodies should be necessary for purposes of the public business they conduct. The key to ensuring that the travel and incidental expenses of an organisation are directed to achieving the objectives of the business is to ensure that the underlying business activity is authorised in advance and self-generated transactions using credit cards are minimised.

3.2 This Chapter examines the control over business and foreign travel expenses in the period 2002-2008. Over that period, FÁS spent €4.7 million on foreign travel costs and €1.7 million on business expenses. Of this, around €62,000 was spent using credit cards.

FÁS's Foreign Travel Arrangements

3.3 Policy in regard to foreign business travel undertaken in the public sector was set out by the Department of Finance in 'Foreign Travel Policy'¹⁷ dated October 1997, which was issued by circular letter to all Government Departments and Offices in March 1998.

3.4 The policy established general principles governing foreign travel. It covered areas such as the appointment of travel officers, use of frequent flyer points and the class of hotels to be used when travelling for business purposes. The circular stated that each department should designate a travel officer who would be responsible for travel matters generally. It also stated that the travel officer would be responsible for monitoring the implementation of each department's travel policy and for liaising with the company appointed to handle the department's foreign travel business.

3.5 The circular asked that the travel policy be brought to the attention of officers responsible for making foreign travel decisions in the departments. It did not ask the departments to pass the travel policy onto the agencies under its aegis.

3.6 In regard to the class of air travel to be used, the Foreign Travel Policy states that for short-haul flights, provided that the service offered is appropriate to the business needs of the department or office, economy class should be used. However, executive class¹⁸ could be used where the additional flexibility offered is considered necessary. The Department of Finance asked that each department clearly set out the circumstances in which executive class travel would be allowed.

3.7 The Foreign Travel Policy issued in 1998 did not define what constituted a short-haul flight. In its own policy for foreign travel issued to staff in March 1999, the Department of Finance stated that, in addition to the use of business class for short-haul flights where the advantages afforded were considered necessary for the discharge of public business, business class could also be used for journeys involving flights of more than five hours, subject to using the airline offering the best value for money in that class.

3.8 In November 2008, the Department of Finance re-issued the 1998 guidelines to all Departments and Offices and requested them to bring the guidelines to the attention of all bodies under their aegis and in July 2009 the Department of Finance issued a revised policy.

¹⁷ Circular E105/10/97 entitled Foreign Travel Policy, Department of Finance.

¹⁸ Executive class, as used in the Department of Finance circular, also refers to business class flights. In a letter to the Committee of Public Accounts in December 2009, the Department of Finance described these flights as being above economy class but lower than first class.

3.9 The revised Code of Practice for the Governance of State Bodies, June 2009, requires all non-commercial State bodies to adopt and comply in all respects with the circulars issued from time to time by the Department of Finance regarding travel and subsistence. The Code also states that Boards of State bodies that incur significant annual expenditure on foreign travel by members of staff or the Board should put appropriate procedures in place to monitor, report and enforce the relevant rules and requirements. The Code sets out a framework for a travel policy for State bodies. The Code also requires the Chairperson of a State body to confirm, in an annual report to the Minister, that all appropriate procedures for travel are being carried out.

Foreign Travel Policy in FÁS

3.10 FÁS informed the examination team that it did not receive the 1998 circular from its supervising Department. However, practices in place in FÁS had the same central principle as the policy issued by the Department of Finance – foreign travel should be by way of the most economical service available appropriate to the business needs of the organisation.

3.11 Until 2009, FÁS did not have a written policy in regard to foreign travel by staff members. However, certain procedures had been notified to managers. In 1993, a ‘Foreign Travel Requisition’ form was introduced. Details required included the purpose of travel and the reason for use of a class other than economy class. The travel requisition forms were to be approved in advance by the relevant manager and Assistant Director General (ADG). All travel bookings were to be made through an officer designated as travel officer.

Notwithstanding the lack of a written policy about foreign travel in the period under review, the examination found that there appeared to be a general awareness of the arrangements outlined above across the organisation.

3.12 In May 2009, FÁS introduced a set of procedures for foreign travel.

Cost and Class of Travel 2002-2008

3.13 Approximately 4,400 return flights were paid for in the period under review. Around 3,400 short-haul flights costing just under €1.3 million and around 1,000 long-haul flights costing just under €1.7 million were undertaken. Details of the short and long-haul flights are presented in Figure 3.1.

Figure 3.1 Number and Average Cost of Flights Undertaken, 2002 to 2008

	Long-haul		Short-haul	
	Number of Flights	Average Cost per Flight €	Number of Flights	Average Cost per Flight €
Economy	746	830	3,130	320
Other ^a	272	3,857	270	1,041
Total	1,018	-	3,400	-

Note a: Airlines use different terms to denote the classes of travel other than economy class. ‘Other’ covers all non-economy class flights including first class flights of which a small number were identified.

3.14 A further breakdown of the flight costs by year between 2002 and 2008 is set out in Figure 3.2.

Figure 3.2 Class of Foreign Travel, 2002 to 2008^a

Year	Class of Travel		Total
	Economy	Other	
	€000	€000	
2002	164	233	397
2003	231	226	457
2004	237	157	394
2005	219	228	447
2006	298	183	481
2007	221	216	437
2008	247	78	325
Total	1,617	1,321	2,938

Source: FÁS

Note a: FÁS records do not capture the class of travel used. Invoices from travel agents frequently do not identify the class of travel either. The examination obtained an analysis from the authorised agent, through the travel officer, of all flights booked with the agent from 2005 to October 2008. This amounted to €913,000. The remaining €2 million was reviewed by FÁS and assigned a class based on the fare charged where this was not clear from the invoice.

3.15 The Department of Finance Foreign Travel Policy sets out two types of occasion when executive class travel may be used – these are for long-haul flights or where the additional flexibility it offers is required on a short-haul flight. FÁS did not have a written policy setting out these circumstances. Those intending to travel non-economy class were required to state the reason on a travel request form. However, the examination found that, where travel request forms were used, the reasons for using non-economy class were not stated in almost 80% of cases.

The absence of a policy setting out the circumstances in which the use of business class travel would be justified meant that there was a lack of clarity in this area. In circumstances where reasons were generally not stated on the supporting documentation it is not possible to conclude whether the use of business class was justified for the 8% of short-haul flights where it was used.

3.16 In line with the Department of Finance's own 1999 internal travel policy, it has generally been accepted in the public service that business class flights may be used where staff members are travelling on public business on flights of five hours or more duration. Over the period 2002-2008, with the exception of four instances where first class travel was used, FÁS used business class for 27% of the long-haul flights and economy class for the remaining 73%. FÁS staff below Director level and participants in programmes generally travelled economy class. The predominant use of business class was by senior management, the staff of Corporate Affairs and non-FÁS personnel.

3.17 FÁS has identified two occasions involving four flights in the period under review when first class flights were used. A review by the examination team did not identify any others. One was in April 2008 when three staff members flew from Dublin to Orlando via London. The trip was associated with the Science Challenge programme and the flights cost around €27,000. The other occasion was in 2005, when the manager for Science Challenge used first class for a trip to the US at a cost of €6,500. The explanation given for the use of a first class flight on that occasion was that the business class flight which had originally been booked was cancelled due to an airline dispute. The manager contacted the authorised travel agent directly and the only alternative flight available on that day was the first class flight.

Class of Travel – Comparison

3.18 As part of this examination a survey¹⁹ on foreign travel was conducted with 20 State organisations. One purpose of the survey, which asked about foreign travel undertaken in 2007 and 2008, was to determine the class of travel used.

3.19 The organisations reported that almost 85% of flights were short-haul flights. The use of economy class was reported for over 98% of these. Economy class was used for two-thirds of long-haul flights. Business class was used for almost one-third, while the organisations stated that first class travel was used on 14 occasions. The survey, also requested information about

- the total flight costs associated with foreign travel in each of the organisations
- the internal arrangements in place for foreign travel services and
- how the organisations procured foreign travel services.

The organisations surveyed and the main findings of the survey are presented at Appendix C.

3.20 The proportion of short-haul flights in FÁS that used business class was higher than the average across the other 20 organisations. The proportion of long-haul flights that used business class in FÁS, at just over a quarter, was somewhat lower than in the organisations surveyed.

Around €1.3 million was spent by FÁS on short-haul flights of which around 8% used business class. Business class may be used, under the general government policy, if the business circumstances require it. However, the examination found that the reason for using business class was often not provided on the travel requisition forms and the proportion of business class short-haul flights used by FÁS was higher than that reported by other agencies which used it for around 2% of short-haul flights.

There was a certain inconsistency in the use by FÁS of business class for long-haul flights. Overall, just under €1.7 million was spent on these long-haul flights in the period 2002 to 2008 – around 27% of the flights used business class and these accounted for around 63% of the costs. In general, economy class was used by participants in FÁS programmes or events abroad, including Science Challenge and World Skills, FÁS staff at manager level or below and some managers.

However, FÁS used business class flights less often on long-haul flights than other State bodies which used business class for around one-third of these flights.

¹⁹ The returns from the organisations were not independently checked.

Business Purposes of Foreign Travel

3.21 FÁS has responsibility for a number of programmes where foreign travel is required. As part of this review, the flight costs incurred in 2007 were reviewed. Details of the flights abroad by programme for that year are set out in Figure 3.3.

Figure 3.3 Expenditure on Foreign Travel by Programme^a, 2007

Programme	€
Science Challenge	153,000
World Skills	71,000
Eures	62,000
Overseas Graduate Programme	35,000
FÁS Screen Training Ireland	33,000
Opportunities 2007	16,000
Other ^b	67,000
Total	437,000

Source: FÁS

Notes: a Cost of flights only.

b The category 'other' includes the remaining programmes, none of which amounted to more than €6,000 in 2007.

3.22 FÁS is reimbursed for a certain amount of travel undertaken in relation to some programmes - for example, the Eures²⁰ programme. FÁS does not have an accurate estimate of the amount it was reimbursed for the full period under review (2002 to 2008) as receipts are not coded to a single individual account and it does not analyse amounts reimbursed between flight and other costs.

Around 35% of the flight costs in 2007 were in respect of the Science Challenge Programme. Over the full period under review, flight costs for the Science Challenge Programme accounted for just under 27% of the total expenditure on foreign flights at around €784,000.

Travel Procurement Arrangements

3.23 FÁS appointed an authorised travel agent in April 2005 following a tender competition. In the period from 1983 until 2004, it had used the services of a different travel agent. A contract was signed with the previous travel agent²¹ in 1983. The agent was reappointed following tender competitions in 1993 and 1997.

3.24 In March 2001, an Internal Audit report noted that travel arrangements for Corporate Affairs staff and external third parties were being made directly with travel agents. The report stated that there appeared to be no reason why Corporate Affairs could not continue to make their own foreign travel arrangements, as FÁS did not have a contract with a travel agent at that time.

²⁰ A network of Employment Services in the European Union designed to facilitate the free movement of workers within the EU and the European Economic Area.

²¹ The contract was signed between the travel agent and AnCO. AnCO was dissolved following the establishment of FÁS and its functions transferred to FÁS.

This recommendation ran counter to the direction in the 1993 memorandum that all foreign travel arrangements should be made through the travel officer. No evidence was provided to indicate whether management responded to the recommendation.

3.25 In 2005, following the change of travel agent, the Director of Finance reminded the ADGs and Directors that all foreign travel in their areas of responsibility should be directed through the travel officer.

Adherence to Internal Procurement Procedures

3.26 In the period 2002-2008, just over €2.4 million of the foreign flights were booked with the authorised FÁS travel agent including one of its subsidiaries.²² Around € million of this was booked by the FÁS travel officer. A sample of 30 flights booked through the travel officer showed that procedures had generally been followed. However, of the nine flights where business class had been used, while the requisition forms stated that business travel was to be booked, only two of the forms provided a reason for this.

3.27 The travel officer booked flights for people other than FÁS staff – for example, when lecturers visited in respect of FÁS Screen Training Ireland.²³ In 2007, around €3,000 was incurred for flight costs for that programme.

3.28 Figure 3.4 outlines the split between travel booked by the travel officer with the authorised travel agent and travel booked by other staff both with the authorised travel agent and other travel suppliers.

Figure 3.4 Booking of travel, 2002 to 2008

Booked by	Authorised Travel Agent	Other Suppliers	Total
Travel Officer	2,000,000	-	2,000,000
Other FÁS Personnel	400,000	550,000	950,000
Total	2,400,000	550,000	2,950,000

3.29 FÁS staff other than the travel officer booked flights to the value of around €50,000 in the period 2002 to 2008. The €50,000 comprised

- flights for the former Director General and staff members of the Corporate Affairs section including the ADG with responsibility for Corporate Affairs and
- flights booked by Corporate Affairs for non-FÁS staff including Board members, Ministers and staff of the Department of Enterprise, Trade and Employment, journalists and participants in the Science Challenge Programme.

²² The travel agent's subsidiaries were included in its tender submission.

²³ FÁS Screen Training Ireland is a State funded national training and development resource specifically created for audiovisual industry professionals in Ireland. It was established in 1995 and it is funded by Bord Scannán na hÉireann (The Irish Film Board), fee income and by FÁS.

3.30 The highest costs in respect of senior management were incurred for

- the manager of the Science Challenge programme whose flights cost around €124,000 including 24 trips to the US, two trips to South Africa and a trip to Japan
- the Director of Corporate Affairs where €95,000 was incurred for 18 trips to the US and three trips to the UK or Europe
- the former Director General who travelled abroad on FÁS business on 29 occasions. Excluding a trip when the government jet was used the total cost of the flights for the remaining 28 trips was around €93,000
- the ADG with responsibility for Corporate Affairs where around €60,000 was incurred for 24 trips.

Internal procedures were adhered to for around two-thirds of the expenditure. Travel by the former Director General and most of the travel by Corporate Affairs personnel or booked by that section for others did not follow procedures insofar as travel requisition forms were not completed, the flights were not booked through the nominated travel officer in FÁS and the travel was booked with agents other than the approved agent. A recommendation in a 2001 report may have caused some confusion as it suggested that Corporate Affairs could continue to book directly with travel agents although it was clear from 2005 onwards that the internal FÁS travel officer should have been used for all flights.

Financial Accounting should only approve payments when it is satisfied that internal procedures have been adhered to. Financial Accounting approved payments that were not supported by travel requisition forms, which was in contravention of procedures, and made payments to travel agents other than the authorised travel agent. No evidence was provided to show that this expenditure was challenged by Financial Accounting prior to approving payment.

Travel by Non-FÁS Personnel

3.31 In addition to foreign travel costs incurred for FÁS Board members, management and staff as well as participants in events such as World Skills, FÁS also incurred costs for non-FÁS personnel. These included Ministers and Departmental officials, a former Board member, journalists as well as spouses of senior FÁS managers.

FÁS paid around €32,000 for travel by spouses of FÁS senior management in the period under review

- €21,000 was incurred for eight trips by the former Director General's spouse. The cost ranged from €600 to €5,300 and
- €11,200 was incurred for eleven trips by the spouse of an ADG. The cost of the flights ranged from €200 to €6,000.

FÁS also paid for one flight by a spouse of a Board member at a cost of €50.

On one occasion, FÁS was reimbursed €200 for costs incurred for a flight taken by the spouse of the ADG mentioned above. No evidence was provided to show that any of the other flight costs incurred for spouses were reimbursed to FÁS or that FÁS sought reimbursement.

3.32 Around €200,000 was incurred for flight costs for non-FÁS personnel for the Science Challenge Programme including

- Spouses of staff members – three flights costing €12,000
- Board members – three flights costing €19,100
- Government – six flights costing €29,000
- Non-staff members including journalists – 36 flights costing €149,000.

3.33 Some of the cost was incurred on bringing people to Ireland, for example at the time of the Opportunities exhibition. These included astronauts and members of their families as well as some local representatives contracted by FÁS in the US as part of the Science Challenge Programme and their spouses. Analysis of expenditure for some of these trips shows that non-flight costs added around 80% to the flight costs. For example, the flight costs for two trips in June 2006 and February 2007 amounted to around €56,000. Non-flight costs added a further €45,000 as follows

- Accommodation and food – €25,000
- Chauffeur services – €16,000
- Other costs – €4,000.

3.34 In regard to FÁS incurring the costs for non-FÁS personnel when groups travelling abroad include Ministers or representatives from Departments FÁS stated that it does not have a policy covering this and pointed out that the Department of Finance policy on foreign travel does not address this issue. For travel by other non-FÁS personnel, FÁS stated that neither it, nor the civil service generally, had a policy in this area prior to July 2009. The revised policy issued by the Department of Finance in July 2009 states “*Departments or Offices should not pay the travel costs of persons who have no direct connection with the Department and have no role in the official business being conducted during a trip other than in exceptional circumstances where a specific invitation is extended by a host country for a special occasion and the appropriate Minister has certified that attendance is in the public interest.*”

Overall, the cost of Ministers and civil servants would have to be borne by the State in any event. However, it would be preferable to discharge such costs from their Department to ensure that the costs are allocated to the appropriate service within the Vote of the Department.

Travel Reward Schemes

3.35 Certain airlines provide incentives for booking flights with them. Points referred to as air miles, are awarded and these can be exchanged for other goods or services by the point holder – for example, for flights or accommodation vouchers. Benefits can accrue to named individuals or to organisations.

3.36 Travel Policy states that it is “*the responsibility of each Department/Office to ensure that frequent flyer points are not allowed influence decisions taken in relation to the carriers used for official business.*” The Civil Service Code of Standards and Behaviour²⁴ states that “*benefits under frequent flier schemes may be retained by individual civil servants in recognition of the fact that official travel is disruptive to personal and family life.*” The Department of Finance pointed

²⁴ Section 16.2, Civil Service Code of Standards and Behaviour, September 2004.

out that the decision that frequent flyer points would be retained by Civil Servants was a Government decision in recognition of the fact that official travel is disruptive to personal and family life and that the decision was expressed in the Civil Service Code of Standards and Behaviour which was the subject of a separate Government decision in September 2004.

3.37 Regarding the issue of staff earning air miles when travelling on official business, the officer responsible for managing foreign travel arrangements in FÁS stated that no travel incentives were received from bookings made with the authorised travel agent. However, there was evidence that air miles had been earned by one staff member when booking travel through a separate travel agent.

In general, the use of authorised travel agents on foot of contracts with the net cost after taking account of all incentives and benefits being paid by the State is the best way of managing and minimising the cost of foreign travel.

3.38 Internal Audit investigated two allegations, one written and one verbal, regarding foreign travel by a FÁS staff member. The allegations referred to a staff member colluding with a travel agent to have FÁS billed for a first class ticket while a business class ticket was provided and then having the balance credited to a personal account which the staff member later used for booking personal travel.

3.39 The investigation conducted by Internal Audit included interviews with the Director of the travel agency named in one of the allegations and the person in the agency responsible for the FÁS travel account during the period 2003-2005.²⁵ It also involved an examination of the travel agent's files for the period under review following which Internal Audit concluded that the amounts charged to FÁS matched the values of the tickets issued and that FÁS did not pay any amount in excess of this.

An investigation carried out by FÁS's Internal Audit found no evidence of collusion with travel agents to obtain personal benefits at FÁS's expense.

Examination of Business Expenses

3.40 In the period under review, FÁS charged €1.7 million as business expenses of which €1.1 million was incurred by Head Office sections.

3.41 Payments in respect of expenses were made in a number of ways – by cheque to a supplier, by reimbursing employees for expenses paid from their own resources or by way of the organisation's credit cards.

3.42 During the period under review, FÁS did not have any written policy on entertainment expenses. However, there was some guidance to staff in this regard. In circumstances where staff members are claiming reimbursement, through the travel and subsistence system, for entertainment expenses incurred in the course of conducting FÁS business, they are required to state the purpose of the expenditure and the names of the persons entertained. The claim form should then be signed off by the relevant manager.

²⁵ The investigation only covered the period between 2003 and 2005 as this was the last year of trading for the travel agent. The personnel from the travel agent who met with Internal Audit had retained the files.

Department of Finance Guidance on Official Entertainment

In 2000,^a the Department of Finance set the following guidelines for government departments and offices

- Each Department or Office was to set an overall official entertainment expenditure limit, as a percentage of its administrative budget, with a specific allocation set aside to meet the requirements of the Minister and Ministers for State and the balance allocated as part of the devolved budgeting arrangements to Assistant Secretaries and line managers.
- The strictest economy should be observed in expenditure on entertainment. Entertainment of Irish public servants should be incidental to the entertainment of other persons.
- Expenditure limits were specified depending on the nature of an event. For example, the limit for a dinner hosted by a Secretary General, Assistant Secretary or equivalent was €1 per head while the limit for a lunch hosted by an officer below those ranks was €2 a head. These limits have not been revised since the circular was issued in 2000.

Note a: Circular 25/2000 entitled Official Entertainment, Department of Finance, 2000.

Payments Review

3.43 A sample of 45 payments selected at random was examined – 30 payments to suppliers and 15 to staff members. The total value of the sample was around €100,000 and it was reviewed under the headings set out in Figure 3.5.

Figure 3.5 Expenses Review

Test criterion	Number examined	Number meeting test criterion	Issues
Authorisation	45	45	-
Clarity of business purpose	45	44	1
Economy	45	43	2

3.44 FÁS was unable to locate the supporting documentation for seven further payments originally selected for testing as part of a random sample. The total value of these payments was around €6,000. These were

- two payments to staff members - €339 in 2003 and €5,523 in 2007
- two payments to hotels – €3,852 to a Galway hotel in 2002 and €4,415 to a hotel in Waterford in November 2004
- two payments totalling €1,270 to unnamed suppliers in 2005 – the purpose for both payments is described as ‘DG dinner’
- €2,178 to a Kilkenny hotel in 2006.

The examination team was unable to review all of the 52 payments randomly chosen, as FÁS was unable to locate the supporting documentation relating to seven of the payments. It is the responsibility of FÁS to maintain records and documentation so as to provide adequate evidence of the transactions undertaken by the organisation.

3.45 The examination found that in the case of those expenses where substantiating documentation could be located, authorisation for the expenditure was given at the right level for all transactions, the business purpose of the expenditure was clear from the supporting documentation for all but one other transaction and in two instances it was not clear how economy was achieved

- One of the payments for €2,000 was in respect of a fundraising golf event. The payment entitled four people to play in the event. No evidence was provided to indicate who participated in the team paid for by FÁS or to indicate how the expense was relevant to the business of FÁS. The former Director General approved the payment.
- There was some evidence of a lack of regard for economy in the case of some expenses incurred. On one occasion, alcohol accounted for 64% of a bill for a lunch attended by three FÁS personnel to discuss the One Step Up project while on another occasion alcohol accounted for around 40% of a claim for expenses relating to a workshop held for the International School for Peace.

In all, seven vouchers could not be located and three of the sample did not meet some audit criterion.

3.46 In a follow up review, five further payments, totalling €6,900, in respect of fundraising golf events were identified. There was no evidence to indicate how these expenses were relevant to the business of FÁS. The former Director General approved all but one of the payments and the former Director of Finance approved the other.

It was not possible, due to lack of supporting documentation, to conclude on whether or to what extent the foregoing expenses were for business purposes.

Credit Card Transactions

3.47 Some business expenses incurred by Head Office units were paid by way of credit card. Total expenditure on all credit cards between 2002 and 2008 amounted to almost €80,000. Around €27,000 (almost 85%) of the expenditure was incurred by senior managers and Corporate Affairs staff. Seven credit cards were held by senior management and the staff of Corporate Affairs and an additional nine cards were issued to other staff members. The total expenditure on these nine cards over the period 2002-2008 was just over €151,000 of which approximately €13,000 was spent on the purchase of library materials and around €3,000 on miscellaneous purchases by the Procurement Unit. FÁS stated that the principal reason that it issued credit cards to staff members in Corporate Affairs was that they often incurred significant costs when abroad. In order to ensure that they would not have to incur charges to their personal credit cards, they were issued with corporate credit cards. The expenditure by senior management and Corporate Affairs staff is summarised in Figure 3.6.

Figure 3.6 Credit Card Expenditure by Senior Management and Corporate Affairs Section, 2002 to 2008

Type of Expenditure	2002 €000	2003 €000	2004 €000	2005 €000	2006 €000	2007 €000	2008 €000	Total €000
Expenditure Abroad								
Accommodation	4	10	20	49	58	94	11	246
Travel	34	49	4	1	6	4	2	100
Meals and Hospitality	-	4	5	7	9	4	3	32
Domestic Expenditure								
Accommodation	27	7	60	8	9	12	7	130
Meals and Hospitality	22	15	18	19	19	19	13	125
Board Expenses ^a	-	7	4	17	-	13	8	49
Other Expenditure	15	12	30	20	21	32	15	145
Total	102	104	141	121	122	178	59	827

Source: FÁS, analysis by Internal Audit

Note a: Includes Board and Executive Board expenses.

3.48 The examination found that for some of the credit card expenditure no detail was provided about the business purpose while there was a lack of regard for economy on some occasions – for example, in the use of limousine services, high levels of gratuities added to bills and large amounts of alcohol on lunch bills.

Vouching of some credit card expenditure was inadequate, insofar as

- in some cases, the documentation of the business purpose for the expenditure and of the recipient of the services was deficient, particularly in the case of meals and hospitality
- the quality of documentation supporting expenditure by some cardholders was poor, for example, original receipts were often not provided
- there was some evidence of extravagant expenditure that appears to have gone unchallenged.

3.49 Despite the level of expenditure on credit cards, there were no policies or procedures in place governing their authorisation and use. In January 2005, following receipt of a memorandum from the Director of Corporate Affairs stating that he had approved applications for credit cards from the manager of Science Challenge and the Advertising and Marketing manager, a manager in Financial Accounting wrote to the Financial Standards Unit²⁶ seeking advice in the context of procurement and payment guidelines as to what were the correct procedures for the authorisation and use of credit cards by staff. In March, the manager in Financial Standards responded that, following discussions with the Director of Finance and the ADG with responsibility for Finance,

²⁶ The Financial Standards Unit has responsibility for developing internal financial procedures for approval by the Board.

he would be drafting a procedure to handle the approval of future requests for credit cards and the ongoing administration involved in their use. The manager stated that the two applications could go ahead in the meantime. However, no credit card policy was developed at that time.

3.50 Due to their nature, transactions using credit cards increase financial risk since

- the normal authorisation limits for incurring expenditure in a single transaction and the requirement that expenditure be approved in advance may be breached
- the usual segregation of responsibilities whereby the payment function is separate from the purchasing function does not exist
- the financial control function of the Finance section is bypassed as payments are made by direct debit
- normal procurement procedures could be bypassed by using credit cards
- the conditions that must be met prior to making payment to a supplier may not be met. For example, the threshold at which a tax clearance certificate should be provided before payment can be made may be exceeded
- there is an increased risk that expenditure that is not appropriate to the organisation or personal expenditure may be charged to the card.

In order to mitigate these risks, State bodies should reduce the number of credit cards to a minimum and, where they are justified, have appropriate procedures in place including

- suitable limits on the expenditure that can be incurred on a card
- a requirement that the approximate amount of expense that is planned to be paid by means of a credit card should be approved in advance. In circumstances where prior approval is not granted, there should be a requirement that the reason for the expenditure is clearly enunciated
- a stipulation that all expenditure be supported by original invoices or receipts
- approval of payment should always be made at an appropriate level in the organisation
- a stipulation that the card should only be used for procuring and paying for goods and services that cannot, for practical purposes, be procured through the normal channels
- credit cards issued by an organisation should not be used to fund personal expenditure.

Management Response

3.51 A credit card policy was developed in 2009 and was adopted by the Board at its March 2009 meeting. The policy on the use of credit cards includes the following

- Credit cards will be authorised by the ADG with responsibility for Finance.
- A card may not be used for withdrawing cash, purchasing business gifts or any type of personal expenditure. Misuse is a disciplinary offence that could result in dismissal.
- Expenditure on credit cards is subject to the same rules as other purchases and purchase orders must be raised either in advance of expenditure or as soon as possible on return to the office.
- All purchases made by credit card must be supported by vouchers and receipts which should be attached to a purchase order.

- All employee expenses paid by credit card must be evidenced by adequate supporting documentation including original receipts.
- Unauthorised use of credit cards will be subject to investigation and may result in potential reclaim from the card user, withdrawal of the card and/or disciplinary action.

While recognising that the introduction of a credit card policy has strengthened internal control in this area it would be preferable if Board approval were sought for the issuing of credit cards to staff members.

Expenditure on Events

3.52 Over the period 2002 to 2008, FÁS paid a net €35,000 for tickets to events including match and concert tickets and hospitality associated with some of the events. The details of the tickets purchased were as follows

- €43,100 was paid for four ten-year match tickets. Two tickets were purchased in 2005 at a cost of €20,000 and two further tickets in 2007 at a cost of €23,100. Following the appointment of a Director General on an interim basis in late 2008 a decision was taken to cancel the tickets. In May 2009, FÁS received the sum of €33,800 as reimbursement for the unexpired terms of the tickets. The net cost of the tickets was €9,300.
- €7,000 for tickets for the All Ireland hurling and football finals. Ten tickets were purchased for each final for the years 2006 to 2008 inclusive while between four and eight tickets were purchased for each final for the years 2002 to 2005.
- €4,640 for tickets for rugby internationals between 2006²⁷ and 2008.
- €1,960 for tickets for soccer internationals in 2007 and 2008.
- €3,724 for concert tickets in the period 2005 to 2008.²⁸
- €8,299 for hospitality at events. This included €2,255 at the Robbie Williams concert in 2006 and amounts incurred at the All Ireland Finals (€2,244 in 2005, €2,300 in 2006 and €1,500 in 2007).

3.53 All but one of the payments were approved by the former Director General. The remaining payment was approved by the ADG who was Secretary to the Board. There was no evidence on the FÁS files to indicate how the expenditure was relevant to FÁS's business. FÁS could not provide this information and wrote to the former Director General seeking information about the payments. No response was provided before the finalisation of this report.

It is important that all amounts charged to public accounts are capable of being justified as promoting the objectives of the public body concerned. A rigorous challenge by financial control functions should occur in any cases of doubt.

²⁷ Tickets were purchased in Autumn 2006 for international matches held in Spring 2007.

²⁸ Four premium tickets for U2 in 2005 and tickets for Billy Joel, Bon Jovi and Robbie Williams (2006), Police (2007) and Westlife and Neil Diamond (2008).

General Conclusions

While the examination found that there was a general awareness among staff of the internal arrangements governing foreign travel certain personnel within the organisation failed to comply with foreign travel procedures that required flights to be booked through a dedicated travel officer and use a contracted agent.

One third of business was conducted outside the established arrangements. Associated payments were made by the Financial Accounting Unit despite non-conformance with those procedures.

Although FÁS used business class for long-haul flights to a lesser extent than other State bodies, its use of business class on 8% of short-haul flights was considerably higher than that of other State bodies who report using it in 2% of cases.

Over one-third of foreign flight costs were in connection with the Science Challenge Programme.

Approximately €32,000 was charged to the accounts of FÁS in respect of travel costs of spouses of senior management.

The business purpose for some expenses was not apparent. These included €35,000 spent on sports tickets, concert tickets and hospitality at sporting events and concerts.

There was a lack of regard for economy in some cases, including the use of limousine services, the payment of high levels of gratuities and a high proportion of the cost of certain lunch bills being accounted for by alcohol.

An analysis of a sample of 52 business expense payments failed to identify the supporting documentation for seven payments and raised concerns about either authorisation, business purpose or economy in three other cases. In follow up procedures, a further five payments for which the business purpose could not be ascertained were identified. In total six payments amounting to €9,000 for fundraising golf events were identified.

Controls over some credit card expenditure were weak, insofar as

- in many cases, the documentation of the business purpose of the expenditure and of the recipient of the services was deficient, particularly in the case of meals and hospitality
- the quality of documentation supporting expenditure by some cardholders was poor, for example, original receipts were often not provided
- there was some evidence of extravagant expenditure that appears to have gone unchallenged.

Policies and procedures have since been strengthened by management through

- adopting a set of foreign travel procedures in 2009
- adopting a credit card policy in 2009 and curtailing use, principally, to the library area.

4 Governance

4.1 This chapter examines the structures which FÁS has established to govern and review its operations and the arrangements for internal audit and investigation of alleged irregularities.

The Board of FÁS

4.2 During the period 2002 to 2008 the Board of FÁS (the Board) was comprised of members appointed by the Minister for Enterprise, Trade and Employment (the Minister) who, *inter alia*, were representative of government and key institutions of labour and employment. Appointments by the Minister were primarily based on membership of bodies specified in the Labour Services Act, 1987 (the Act).

4.3 The principal functions of the Board are set out in the Act including how it is to report to the Minister. The exercise of some of these functions may require Ministerial approval.

4.4 Board members are paid allowances that are sanctioned by the Minister with the consent of the Minister for Finance. In 2008, the Chairman received an allowance of €24,000 while the other Board members received €14,000 each. Department representatives do not receive allowances.

Membership of the Board 2002 to 2008

The Board comprises a Chairman and 16 ordinary members

- four employers' representatives
- four trade unions' representatives
- one person representing youth interests
- two representatives of the Minister
- one representative of the Minister for Finance
- one member representing educational interests, appointed by the Minister following consultation with the Minister for Education and Science
- one member representing social welfare interests, appointed by the Minister after consultation with the Minister for Social and Family Affairs
- two FÁS employees.

Meetings of the Board

4.5 The Board meets around ten times annually. In addition to other agenda items, it receives a report from the Executive presented by the Director General and an update on the financial position and activity levels.

4.6 The Board also holds one meeting annually devoted to strategy. For example, in 2008, as part of the preparations for strategy formulation the Board

- considered a letter from the Minister which set out some of the matters that it should take into account when formulating its strategy for the period 2010 to 2013
- received presentations on a number of items – including social inclusion issues

- considered the possible impact on the FÁS strategy of matters such as upskilling and how FÁS should respond to redundancies in the economy.

The Board also receives annually a detailed report setting out progress under its current Statement of Strategy.

Reserved and Delegated Functions

4.7 The overall functions of FÁS are set out in the governing legislation. Certain of these functions are reserved to the Board. The Code of Practice for the Governance of State Bodies (the Code)²⁹ states “*The Board should have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the body is firmly in its hands.*” Figure 4.1 sets out the items identified in the Code as the minimum that should be reserved to the Board of FÁS.

Figure 4.1 Matters Reserved to the Board for Decision

Code Minimum Requirements – Functions to be Reserved to the Board	Related Reserved Function of FÁS Board
Significant acquisitions, disposals and retirement of assets of the State body. The schedule should specify clear quantitative schedules for contracts above which Board approval is required.	Approval of the authority levels and purchasing procedures of FÁS. The procedures approved by the Board specify the limits above which its approval is required.
Major investments and capital projects and approval of major contracts.	Authorisation of purchases or sales of land or buildings and all major contracts assigned by FÁS.
Delegated authority levels, treasury policy and risk management policies.	Approval of the authority levels of FÁS. Also, Board approval is required for opening bank accounts and it has approved a risk management policy.
Approval of annual budgets and corporate plans.	Approval of the capital and operating budgets within the finances made available to FÁS.
Production of annual reports and accounts.	Approval of the annual accounts.
Appointment, remuneration and assessment of the performance of, and succession planning for, the CEO and significant amendments to the pension benefits of the CEO and staff (which may require Ministerial approval).	Appointment of the Director General and approval and implementation of the Director General's incentive scheme. Approval of schemes for granting superannuation benefits to the staff of FÁS and the appointment/termination of managers to manage the funds of the pension schemes.

4.8 In addition, the Board has specifically reserved to itself the power to

- formulate policy and to approve major changes or initiatives in policy, to set targets and to determine the broad plans to meet those targets and
- appoint sub-committees of the Board.

²⁹ In 1992, the Department of Finance issued a set of guidelines for the governance of State Bodies. This was updated in 2001 when the Code was published. In 2009, a revised Code was published by the Department of Finance.

4.9 Since 2009, the Code requires a Board in non-commercial State bodies to reserve to itself the function of ensuring compliance with statutory and administrative requirements in relation to the approval of the number, grading and appointment of all staff.

In general, the range of functions which the board reserved to itself for decision are appropriate and are in accordance with those specified in the Code of Practice for the Governance of State Bodies.

Department Representatives

4.10 Currently, the Board has five members who represent functions assigned to Ministers. Four of these are civil servants. The question has been raised as to whether appointees from government departments may report to their Department or Minister information that they obtain in their role as Board members or whether they may request information in their role of Board member and pass this information to their Minister.

4.11 Section 13 of the 1987 Act provided that a person cannot, without the consent of the Board, disclose any information obtained while performing duties as a director or member of staff or as a consultant or adviser to FÁS. However, the Labour Services (Amendment) Act, 2009³⁰ amended this section to the effect that this prohibition on disclosing information shall not prevent the disclosure of information to the Minister either by a Board member or in a report by FÁS.

The revised provisions should help address the existing tension between the representative role of civil servants appointed to the Board and their fiduciary duties to FÁS as a corporate body.

Sub-Board Structures

4.12 At present, there are seven sub-committees to the Board. In February 2006, the Board appointed an Audit Committee and subsequently established six other sub-committees.³¹ These sub-committees are outlined in Figure 4.2.

³⁰ The Labour Services (Amendment) Act was signed by the President on 9 December 2009. The Act had not commenced when this report was completed.

³¹ The previous Board (2001 to 2005) had five sub-committees – an Audit Committee and sub-committees on Pensions, Board Remuneration, Strategic Review and Training for People at Work.

Figure 4.2 FÁS Board Sub-Committees 2006 to 2009

Sub-Committee	Number of Members	Date Established	Frequency of Meetings
Audit	Three	February 2006	Five times in 2008
Pensions	Four	March 2006	Twice in 2008
Remuneration	Four	March 2006	Once annually
Strategic Review	Six	March 2006	Twice annually
Training Policy for Employed People	Eight	March 2006	Five meetings in 2008
Social Inclusion	Six	March 2006	Quarterly
Construction/Contracting	Four	July 2007	Seven meetings in 2008

4.13 Sub-committees may bring forward recommendations to the Board and they are required to keep the Board advised of their ongoing work. The Board also considers progress reports from each sub-committee and, most recently in July 2009, it considered progress reports from all sub-committees.

4.14 As well as a sub-committee structure, the Board also has three advisory committees. These comprise representatives from industry, trade unions, educational bodies, other State-sponsored bodies, government departments and FÁS staff members. These advisory committees are each chaired by a Board member and currently deal with Apprenticeships and the Construction and Engineering Industries. Each advisory committee meets around six times annually. In July 2009, the Board also considered progress reports from each of the advisory committees to the Board.

FÁS has instituted an appropriate system at sub-board level. The sub-committees report periodically to the Board.

The Director General

4.15 The Director General is appointed by the Board with the consent of the Minister. The Director General's functions are set out in Section 6 of the Act which states that he has the responsibility for carrying out, managing and controlling generally the administration and business of FÁS and other functions as may be determined by the Board. While the Board has not formally delegated other functions to the Director General, his contract, signed on behalf of the Board by the Chairman, sets out his main duties and responsibilities. These include, *inter alia*, to

- translate the policies of FÁS into executive action through its Committees and its function executives
- to integrate and direct the activities of his subordinates to ensure effective management of the organisation
- to arrange periodic meetings, properly structured and minuted, with senior executives of FÁS to review the progress of activities under their control
- to authorise all current expenditure within budget and to delegate all or some of these powers to members, officers or servants of FÁS
- to approve rates and procedures governing travel and subsistence expenses of staff of FÁS.

The Director General's functions, defined in the Act, are to manage the administration of FÁS. The Act provides that the Board may delegate other functions to the Director General. While no delegation of functions was approved at a meeting of the Board, the Director General's contract, signed by the Chairman on behalf of the Board, sets out certain functions for which the Director General has responsibility.

4.16 On 25 November 2008, the former Director General of FÁS resigned. The Board approved a severance/superannuation settlement with the former Director General as set out in Figure 4.3.

Figure 4.3 Details of the severance package for the former Director General

Severance element	Once-off benefits €	Annual benefits €
Annual pension		111,245
Superannuation gratuity	333,735	
Payment in lieu of notice	55,622	
Ex-gratia payment	55,622	
Car	20,800 ^a	

Note a: This is the value of the car in the books of FÁS at the date of the former Director General's retirement.

4.17 The value of the settlement,³² including payments in lieu of notice, exceeded the amount that would have been payable under the terms of a general Department of Finance sanction for Chief Executive Officers on fixed-term contracts whose contracts were being terminated or not renewed and compensation under his contract by an estimated €76,422 and it exceeded the amount that would be payable to a comparable public servant taking early retirement by an estimated €92,269. Details are set out in Figure 4.4.

³² All of the above, with the exception of the car, were sanctioned by both departments under Section 6(3) of the Labour Services Act, 1987.

Figure 4.4 Enhanced value of severance package to the former Director General

	Severance element	Value €
Amounts in excess of maximum terms available under the general Department of Finance sanction	Car	20,800
	Ex-gratia payment	<u>55,622</u>
Total		76,422

Amounts in excess of those payable to a comparable public servant on early retirement ^a	Gratuity	64,716
	Pension ^b	<u>827,553</u>
Total		892,269^c

- Notes: a The actuarially reduced benefits were calculated using the pension modeller of the Department of Finance.
- b The future payments to the former Director General have been discounted using a real discount rate (i.e. excluding inflation) of 3.3% and an assumption that future pension increases will be awarded at the rate of 1.75% per annum above inflation. A life expectancy of 30 years from the date the former Director General retired has been assumed.
- c This is the present value, when the benefits were granted to the former Director General, of the series of future payments in excess of those to which a comparable public servant on early retirement would be entitled discounted to reflect the time value of money.

Taking account of the move to fixed-term contracts for CEOs, which was not contemplated in the governing legislation, it may be appropriate to consider how statutory provisions might be adapted to reflect current conditions and to place appropriate arrangements to cater for such terms of appointment on a statutory footing.

The FÁS Executive Board

4.18 The Executive Board comprises the Director General and the seven ADGs. It is not formally constituted and does not have terms of reference. Other managers attend meetings as required. There are a number of advisory committees to the Executive Board - Excellence through People, Disability, Employment Services and Screen Training.

Divisional Structure

Prior to 2007, one of the ADGs had responsibility for the eight FÁS regions and each of the others had responsibility for a functional area or areas. In 2007, the organisational structure changed. Since then, each of the ADGs has responsibility for both a functional area or areas and one or more regions. Thus managers in the regions may report to more than one ADG. Since the start of 2009, one of the ADGs is on leave of absence. The responsibilities of the remaining six are

- Corporate Policy, Standards and the Dublin regions^a
- Community Services and the North East and South East regions
- Employment Services and the Midlands and South West regions
- Finance, ICT and the West region
- Services to Business and the North West region
- Training Services, Human Resources and the Mid West region.

Note a: The Dublin region is divided into three sub-regions.

4.19 Matters considered by the Executive Board at its meetings include financial and activity reports, as well as papers for consideration by the Board of FÁS. Prior to 2009, meetings were held monthly. They are now held weekly with one meeting each month designated principally for consideration of proposed papers for the Board of FÁS. The Director General presents a paper entitled Executive Report to the Board at its meetings covering a range of items. For example, in July 2008 the Executive Report to the Board provided information on

- health and safety incidents in FÁS
- a meeting between FÁS and the Department for Employment and Learning in Northern Ireland
- a meeting between FÁS and the Construction Industry Federation to discuss challenges presented by the downturn in the Construction Industry
- a report on a Jobs Fair held in June 2008 as part of the FÁS European Employment Services response to recommendations set out in a report of the Board sub-committee on the Construction Industry
- the initiation of a review of the apprenticeship assessment system
- a meeting between the Executive Board and the Tánaiste in June 2008 at which the Tánaiste identified the issues that she wished FÁS to concentrate on
- an overview of the FÁS apprenticeship programme at June 2008.

4.20 The report content has altered somewhat in recent times. In November 2009, the Director General presented the Director General's Report to the Board noting that the Board had requested the report's change of title. The Director General noted that, in addition to the standard items included in the traditional Executive Report, he intended to use the report to highlight specific matters to the Board including, for example, corporate and business planning, significant operational matters and key engagements of the Director General. In the November 2009 report, the Board was informed that

- a corporate plan was being developed
- performance was being monitored closely to ensure that the main training for the unemployed and other outputs would meet the targets set for 2009

- staff numbers will drop by around 10%, measured in whole time equivalents, during 2008 giving rise to increased pressures on the remaining staff and a need to, among other things, align staff resources to agreed priorities
- FÁS continued to receive a high number of queries from members of the Oireachtas, the media and members of the public with each being answered promptly, reviewed or investigated as appropriate. This process was absorbing increasing amounts of management and staff time
- steps taken on foot of recent allegations in regard to the validity of some contracted training
- an update on the Mount Lucas National Construction Centre
- the key engagements of the Director General during October
- updates on health and safety incidents and the incidence of swine flu in FÁS.

The Director General's report is a valuable mechanism for keeping the Board informed of new developments. There would be merit in formalising reporting from the executive level and advisory committees through this or some analogous mechanism.

Risk Management

4.21 The Code of Practice for the Governance of State Bodies states that one of the matters specifically reserved for decision of the Board of a State body is the adoption of risk management policies. It also states that Directors should review annually the effectiveness of the system of risk management. In late 2004, FÁS engaged consultants to facilitate the introduction of a risk management system.

4.22 In October 2005, arising from the work of the consultants, the Board adopted a risk management policy. The paper to the Board noted that a Risk Management Committee (the Executive Board) had been established together with a risk management function. Risk registers and action plans to address identified risks were to be prepared by each division while the Risk Management Committee was to maintain a consolidated current risk register as a basis for implementing and monitoring the risk management activities. The risk management function, which is carried out by the Internal Audit Unit, was to report to the Risk Management Committee quarterly and to the Board half-yearly on progress in the risk management programme.

4.23 Risk management guidelines were produced to assist managers in identifying, assessing, mitigating, monitoring and reporting risks. Risk registers and action plans were drawn up in 2006 by all four operational divisions³³ and three support units.³⁴

4.24 No annual reviews of the effectiveness of the system of risk management were carried out between 2006 and 2009. The regular reporting to the Executive Board and the Board did not occur as envisaged when the Board approved the policy. Just two risk management reports were presented to the Executive Board between October 2005 (when it adopted the risk management policy) and the end of 2008 – in May and November 2006. No risk management reports were issued to Board in the same period.

³³ Training Services, Services to Business, Employment Services and Community Services.

³⁴ Corporate Services, Finance/Human Resources and the Regions support unit.

4.25 In the 2008 SIFC adopted in July 2009, the Board noted the need to ensure that risks are reviewed on an annual basis. The SIFC stated that a number of risk registers had not been updated in 2008 and that the Board had instructed that all outstanding risk registers be updated by September 2009 and that this should be done annually thereafter.

The system of risk management which was adopted by the Board in 2005 did not function effectively. Risk registers and action plans were not updated between 2006 and late 2009 while the reporting mechanisms approved by the Board have not operated as envisaged and there has been no annual review of the effectiveness of the risk management system in the period 2006 to 2009.

The SIFC for 2008 noted a number of actions that FÁS intends to take to strengthen the system of risk management.

The institution of a comprehensive plan of control is best built upon a functioning risk management system. The absence of such a system cannot but have militated against fully functioning internal controls. Chapter 2 considers the operation of those controls. From a design viewpoint, it may be appropriate to assign the function to a unit other than Internal Audit since a separation of functions is necessary so that it can effectively review the process.

4.26 The 2008 SIFC noted that Internal Audit had scheduled a number of audits to review the risk profile of all operational and support units and that the outcome of these would influence the drafting of Internal Audit's risk-based audit plan for 2010. The SIFC also noted that, from December 2009 onwards, senior management would be required to sign off on an annual basis confirming that all risks in their areas of operation are properly controlled.

4.27 Due to the volume of other work, Internal Audit had not commenced the reviews of the risk profiles of units by November 2009.

4.28 In December 2009, the Board was presented with a paper outlining progress in completing risk registers for all divisions. FÁS stated that the Executive Board will discuss the registers and the associated actions in early 2010 and that risk management will be a standing agenda item at its meetings from 2010 onwards.

Audit Committee and Internal Audit

4.29 One of the sub-committees to the Board is the Audit Committee. The Code states that each State body with more than 20 employees should establish an audit committee of at least three independent non-executive Directors which meets at least four times annually and that the audit committee should have written terms of reference which deal clearly with its authority and duties. This applies a principle of the Combined Code³⁵ which states that a Board should establish formal and transparent arrangements for considering how it applies financial reporting and internal control principles and for maintaining an appropriate relationship with the organisation's auditors.

4.30 The current Audit Committee was established as a sub-committee of the Board in February 2006. It comprises three non-executive members and operates under terms of reference that were approved by the Board in December 2002 and under which the previous Audit Committee also

³⁵ The Combined Code on Corporate Governance, Financial Reporting Council, June 2008.

operated. The purpose of the Committee is to assist the Board in overseeing financial reporting, internal controls, risk management, the audit process and other matters that may be referred to it by the Board.

4.31 The Combined Code sets out certain provisions in regard to audit committees. These represent best practice in this field. The extent of the application of these best practice criteria is outlined in Figure 4.5.

Figure 4.5 Combined Code Provisions

Code Provision	FÁS Arrangements ^a
The board should establish an audit committee of at least three members who should all be independent non-executive directors.	●
The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.	●
The main role and responsibilities of the audit committee should be set out in written terms of reference.	●
The audit committee should be responsible for monitoring the integrity of the financial statements.	●
The audit committee should have the responsibility for reviewing the company's internal financial controls.	●
Unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, the audit committee should be responsible for reviewing the company's internal control and risk management systems.	⊙
The audit committee should have responsibility for monitoring and reviewing the effectiveness of the internal audit function.	●
The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available (for example, on an organisation's website).	○
A separate section of the annual report should describe the work of the committee in discharging those responsibilities.	○
The audit committee should review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. ^b	○
The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.	○

Notes: a Status Codes: ○ = not in place; ⊙ = partially in place; ● = in place.

b In September 2009, the Board was informed that the Executive Board had recently endorsed the introduction of a 'Speaking Up Policy' in FÁS. Section 7 of the Labour Services (Amendment) Act provides for protecting employees who make allegations in good faith in regard to serious wrongdoing in FÁS. FÁS stated that it would not draft its policy until the legislation was in place.

4.32 The terms of reference assigned responsibility to the Audit Committee to review the adequacy and effectiveness of the risk management system and to report to the Board thereon. As indicated above, in 2005, the Board approved a risk management framework that established a Risk Management Committee which was given the responsibility of overseeing the risk management system.

4.33 The Audit Committee in FÁS has been delegated the function of conducting an annual review of the system of internal financial control. The 2008 SIFC states that “*on an annual basis, the Head of Internal Audit provides the Board, through the Audit Committee, with a report on the Internal Audit activity for the year. The report includes the Head of Internal Audit’s opinion on the adequacy and effectiveness of the system of internal financial control.*” The Chairman also confirmed in the SIFC that the Audit Committee, on behalf of the Board, conducted a review of the effectiveness of the system of internal financial control.

Subject to the foregoing, the terms of reference of the Audit Committee are generally in line with the provisions of the Combined Code. However, it would be preferable if the annual review of the system of internal financial control was carried out by the full Board since the functioning of the Audit Committee is a key element in the system.

4.34 The Committee has the authority under its terms of reference, *inter alia*, to conduct or authorise investigations into matters within its scope of responsibility and to seek any information it might require from employees of FÁS. It must meet at least four times annually and the minutes of its meetings, when approved, should be submitted to the Board at the earliest subsequent meeting. In addition, the Committee must provide an annual report to the Board. In practice, the Committee meets around six times annually.

The submission of Audit Committee minutes to the Board could be speeded up. For example, in December 2007 the minutes of the meeting held in February 2007 were presented to the Board and in May 2009 the minutes of the September and December 2008 meetings were presented.

4.35 In regard to Internal Audit, the Audit Committee’s responsibilities are to review, with management and the Head of Internal Audit, Internal Audit’s terms of reference, its plans and activities.

4.36 The Internal Audit Unit operates under terms of reference that were adopted in 1991. The unit’s objective is to provide assurance to management and the Board, through the Audit Committee, that the systems of internal control are sound and effective and are adequately overseen so that serious breakdowns are avoided. The unit is authorised to examine all activities for the purpose of evaluating internal control and should report its findings to the Audit Committee and management. It should also identify and report any control weaknesses to the accountable managers and make feasible recommendations for improvement.

4.37 The Committee’s annual report, usually presented to the Board in April or May of the following year, includes a report on Internal Audit activity for the previous year and the internal audit plan, as approved by the Committee, for the current year.

It is particularly important that the Board is made aware of serious matters that arise in the course of Internal Audit's work. As there may be a significant time lapse between the commencement of a review or investigation and approval by the Audit Committee of any related reports there is a risk that the Board may not become aware of issues at the earliest opportunity.

While it is recognised that conclusions cannot be drawn before Internal Audit completes its work, a mechanism should be put in place to enable the Board to be made aware, in general terms, of serious matters that may impact on governance, control and accountability.

The most recent version of the Code of Practice for the Governance of State Bodies states that any internal audit items that relate to a Board's areas of responsibilities should be communicated to the Board as soon as they are identified. The Board should consider setting out the mechanism through which any such interim reporting should take place.

4.38 The Internal Audit Unit carries out audits, special reviews and investigations. These are described in Figure 4.6.

Figure 4.6 Classification of Internal Audit Work

Assignment	Description of Work
Audits	Planned assignments, including some ICT audits, where assurance is sought that internal control arrangements are adequate and are operating effectively.
Special reviews	Assignments that have not been included in the schedule of planned audits but may arise, for example, from a request by a division or in regard to an issue identified by Internal Audit.
Investigations	Assignments that have also not been included in the schedule of planned audits that are usually triggered by suspicions that some form of fraud may have occurred.

4.39 Internal Audit follows up to confirm that recommendations in a report have been implemented. Frequently, by the time a report is finalised many recommendations may have been implemented or the manager has agreed to a timeframe within which they will be. Three months after an audit report has been completed, Internal Audit writes to the manager in the audited area seeking information about the implementation of recommendations that were outstanding at finalisation. The managers are given 15 days within which to respond.

Recent Developments in Internal Audit Practice

4.40 The process of engagement with management has changed during 2009. Previously, management in the audited area was sent a finalised report with recommendations to which they responded with a timetable for implementation. The Executive Board has endorsed a circulation policy for Internal Audit reports which are, from early 2010, to be sent to the Director General, the Executive Board, the relevant line manager and Regional Director as well as the Director of Finance. The Executive Board also agreed that Internal Audit should incorporate management's responses to its recommendations into its final reports.

Internal Audit could classify its findings based on their significance and ensure that those identified as being of high significance are escalated to Director level if not dealt with within a specified period. Matters classified as being of high significance should be followed up by way of re-audit to confirm that appropriate actions have been taken.

External Quality Review of Internal Audit

4.41 An external quality review of the internal audit function was completed in 2008. The review was conducted through a series of workshops with key stakeholders. The review noted that the stakeholder groups had identified a number of strengths including Internal Audit's independence and objectivity, its positive relationship with the Audit Committee, the professionalism, organisation and work ethic of the unit, the effectiveness of its closing meetings with management, the timeliness of its reports and the practicality of its recommendations.

4.42 The review noted some areas where there was scope for improvement when compared with progressive internal audit departments, generally. These are set out in Figure 4.7.

Figure 4.7 Assessment of Internal Audit against Best Practice

Features of Progressive Internal Audit Departments ^a	Review Finding
Resourced by people possessing qualifications in accountancy, internal audit and/or IT.	Within the unit there is one qualified accountant, two auditors with PIIA ^b certification and one qualified IT manager.
Seen as an incubator for developing best talent in an organisation.	Internal Audit is not seen as an incubator for developing talent. Staff had spent an average of 21 years in the unit and there was no rotation policy.
Partner with and are actively supported by management. This is evidenced by timely implementation of audit recommendations.	Not all recommendations are implemented in a timely manner.
Seen to add value to an organisation through a consultative role in addition to an assurance role.	The focus has primarily been on an assurance role and Internal Audit is not seen by management as a consulting resource.
Drive efficiency and value for money e.g. by using electronic working papers and making effective use of computer aided audit testing.	Electronic working papers are not used in the unit and computer aided testing is not extensively used.
Ensure the full integration of IT audits as part of other internal audits.	IT audits are not integrated with other internal audits.
Audit or facilitate the organisation's risk management process but do not have sole responsibility for it.	Internal Audit (instead of line management) has responsibility for the risk management function.

Source: FÁS. External Quality Review of Internal Audit, February 2009.

Notes: a Features identified in the external review.

b Practitioner of the Institute of Internal Auditors.

4.43 The review made 34 recommendations in regard to organisation and structure, human resources, training, work practices and communications and reporting. It recommended that an action plan be set up for implementing these. The review stated that, in drawing up the plan, due regard should be given to the cost of Internal Audit noting that the 2008 budget of €800,000 was very substantial compared with the internal audit budget in other organisations. The review noted that many organisations had been able to improve the quality and reduce cost by relying on outsourcing for some or all of their internal audit services.

4.44 It concluded that the key next steps were to decide on the optimum sourcing between a full in-house, an outsourced or a co-sourced model. The review stated that if FÁS wished to move towards best practice and reduce cost the co-sourced model should be carefully considered. It also recommended that FÁS should assess where, taking into account Internal Audit's skill sets and stakeholders' expectations, it wanted Internal Audit's authority and responsibility to lie. The options were presented on a continuum which described three Internal Audit function choices as ranging from conservative to balanced to progressive.

4.45 In February 2009, the Board noted the review and that an action plan was being developed to address the recommendations and in May 2009, the Board noted an action plan setting out a timeframe for implementing the recommendations. Targets were set for all 34 recommendations with the implementation period ranging from Quarter 2, 2009 to Quarter 2, 2010. The Board also noted that the Audit Committee had requested that Internal Audit develop a revised structure to implement the action plan and to reposition the unit as a more progressive service.

4.46 In July 2009, the Board approved a proposal from the Audit Committee in regard to the resourcing and work programme of Internal Audit. The Committee proposed that

- All financial audits be completed within a three-year cycle. The revised plan also allows for investigations and special assignments to be completed.
- A co-sourcing model be adopted with the resources of the Internal Audit Unit to be increased from nine to twelve staff with the recruitment, internally if possible, of two audit staff to replace two who had left the unit and an IT auditor – 15 audits could be outsourced annually.

Appendix D sets out the focus of audit activity and audit coverage by both the internal and external audit functions over the period 2002 to 2008.

Individual Responsibility

4.47 While the focus of public accountability is necessarily on organisational performance, there is a mutual relationship between the performance of State bodies and the behaviour of the individuals of which they are composed, since it is only through the agency of individuals that organisations can act.

4.48 FÁS has two extant codes of conduct

- a Code of Business Practice for Directors and
- a Code of Ethics for Employees.

4.50 The Code of Business Practice for Directors summarises the duties and obligations of Board members in regard to general requirements,³⁶ fiduciary duties, the obligation to act in good faith, conflicts of interest and the avoidance of inappropriate transactions.

4.51 The Code of Practice for Employees was issued in May 2003 and sets out principles that are intended to guide staff. The Code states that the guiding principles for staff are honesty, integrity and public accountability. It provides some specific guidance including

- in regard to accepting gifts the general principle is that gifts should not exceed €75 in value and no more than two gifts should be received from the same source in any 12-month period
- all business dealings will be based on the requirement that FÁS secures value for money
- staff should not use their positions for personal gain or that of friends and family
- regulations set out in the Financial Authority Levels and Procurement Procedures³⁷ should be adhered to and staff should familiarise themselves with them
- at all times, FÁS guidelines, government directives and best practice will be adhered to
- recruitment and promotion will be solely on merit.

4.52 The Code of Practice for Employees does not set out how the Code will be enforced when an apparent breach is alleged or detected and FÁS does not have any written procedures setting out how an investigation of an alleged breach should be conducted or the sanctions that might be imposed. FÁS has stated that the principles in the Code are given effect through the relevant policies and procedures of the agency and these are referenced in the Code. Enforcement of the Code is, therefore, through the underpinning policies and procedures.

Confidential Disclosures and Investigations

4.53 In order to enable employees to confidentially raise concerns about possible irregularities in regard to the conduct of a State body, a Board should adopt appropriate procedures to enable public interest disclosures and to investigate the concerns raised in a robust and fair manner.

Public Interest Disclosures

4.54 While a wide variety of matters may be appropriate for employees to disclose, the types of practices or behaviours raised by an employee that could have financial impacts could include

- wrongdoing leading to material benefits for an individual e.g. theft or corruption
- inadequate administration – this could include either negligent or incompetent behaviour
- poor management or waste of resources
- failure to comply with legal obligations
- conflicts of interest.

³⁶ For example, each Director should be of good character and be ordinarily resident in the State and must ensure that FÁS complies with the requirements of the Code of Practice for the Governance of State Bodies.

³⁷ FÁS Financial Authority Levels and Procurement Procedures, March 2009.

4.55 An issue that may concern staff is that any disclosures that they make, whether borne out or not, may impact negatively on their career or they might find it difficult to raise concerns for other reasons. They may also take the view that their anonymity may not be guaranteed. A person making a protected disclosure should be protected from both civil liability and from suffering any penalty in the workplace – for example, loss of opportunity for promotion, harassment or other threats of reprisal. On the other hand, while it would be important to protect employees who make disclosures from any penalties for having made the disclosure, it would also be important to have procedures in place whereby persons working for the State body or outside parties would be protected from false or vexatious allegations.

4.56 Many State bodies have contractual duties of confidentiality for employees in regard to information that they obtain in the course of their work. Section 13 of the Labour Services Act, 1987 made it an offence for Board or staff members of FÁS to disclose such information.

Labour Services (Amendment) Act, 2009 – Protection of Persons Reporting Certain Matters

Sections 7 and 8 of the Labour Services (Amendment) Act, 2009 amended Section 13 of the 1987 Act. The amendment provides for protecting persons who make allegations in good faith in regard to serious wrongdoings in relation to FÁS. Under the amendment, FÁS shall not penalise an employee who makes such a report and no person will have a cause of legal action against the person making the allegations.

4.57 In September 2009, the Board was informed that the Executive Board had recently endorsed the introduction of a ‘Speaking Up Policy’ in FÁS. The Executive Report to the Board noted that further development would involve legal advice and consultation with staff unions. In order to take account of the provisions of Section 7 of the Labour Services (Amendment) Act, FÁS decided not to draft its policy until the legislation was in place.

The new legislative provisions will need to be accompanied with clear operating rules. Some of the issues that a State body needs to consider when putting procedures in place include the appropriate person to whom disclosures should be made and whether that person should be within or outside the organisation (the nominated person). The nominated person should also have responsibility for ensuring that the matters notified in a disclosure are appropriately investigated but need not be the person who actually carries out the investigation.

A further matter for consideration is the need to ensure that a person making a protected disclosure has the opportunity of escalating the matter if the disclosure is not investigated or there is no action taken or recommended following an investigation.

Investigations of Irregularity

4.58 Investigations are generally triggered by disclosures about possible irregularities or other concerns that are notified to FÁS by external parties or by concerns raised by FÁS personnel. The disclosures about wrongdoing or other irregularities may concern individuals within FÁS or individuals or companies external to FÁS.

4.59 FÁS has a procedure in place for instances where staff members suspect that a fraud may have been perpetrated. In March 2003, the Director General issued a memorandum to all management in regard to investigations into fraud or suspected fraud. Managers were asked to advise staff that where they had any suspicion or knowledge of fraud, in its broadest sense, or of misappropriation of funds they must see to it that their line supervisor and line manager were immediately informed of the facts. The managers were told that they must advise their Regional Director who must, in turn, advise the appropriate functional ADG, the ADG for operations and Internal Audit. Preliminary enquiries should be carried out by the immediate manager but, the memorandum pointed out, only Internal Audit could carry out a full investigation.

4.60 In the period between 2005 and early 2009, Internal Audit issued 29 reports arising from investigations. The triggers for these investigations came from a variety of sources as outlined in Figure 4.8.

Figure 4.8 Triggers for Internal Audit Investigations, 2005 to 2009

Trigger	Number of Reports
Concerns raised by staff member ^a	14
Concerns raised by external source ^b	7
Other work completed by Internal Audit	3
Anonymous disclosure	3
Not clear	2
Total	29

Source: FÁS

Notes: a FÁS staff members include local management, a FÁS officer or a member of the administration staff.
b For example, suppliers and participants in Community Enterprise schemes.

4.61 The subject matter of investigations in the period included, for example,

- procurement procedures within FÁS
- value for money concerns
- allegations that claims for reimbursement by FÁS to third parties were not well founded (e.g. claims from a training company)
- disclosures in relation to other possible fraudulent behaviour – either financial or in regard to falsification of documents.

Timeliness of Investigations

4.62 One of the investigations (INV 137), which arose from disclosures in regard to procurement undertaken by or under the authority of the Corporate Affairs section, commenced in late 2004 and the resultant report was adopted by the Audit Committee in February 2007.

INV 137 – Elapsed Time

In October 2004, FÁS was made aware of an anonymous letter which made disclosures concerning procurement by the Corporate Affairs section.

Internal Audit commenced an investigation in November 2004 and completed a draft report in July 2005. The draft was reviewed by legal advisers to FÁS and a revised draft was completed in August 2005. Some individuals and entities external to FÁS were named in the report and following discussions and meetings with some of these a further draft was completed in January 2006.

A completed report was sent to the Director General and the ADG with responsibility for Corporate Affairs on 30 January 2006. The Director General and the ADG met with Internal Audit to discuss the report on two occasions during February. Arising from these meetings, extracts of the report were sent to a staff member named in the report.

Between late March and late June 2006 there was correspondence between FÁS's legal advisers and the legal advisers for the staff member to whom the extracts had been sent.

In May 2006, the report was presented to the Audit Committee and in June, Internal Audit wrote to the ADG with responsibility for Corporate Affairs seeking a response to the report. In October, the report was discussed at a meeting of the Audit Committee. The Director General met with the Committee for part of that meeting. The meeting adjourned until February 2007.

Prior to the February meeting, the Committee received a response to the report from management in the form of a letter from the Director General. At the resumed meeting, held on 9 February 2007, the Committee discussed the report and agreed that it could be released to the Comptroller and Auditor General. By this time, 28 months had elapsed since receipt of the disclosures.

4.63 Excluding this investigation, the average time taken to carry out the investigations from the date of receipt of the concerns to the issuing of a report by Internal Audit was 5.2 months. Five reports took an average of 12 months and, excluding these, the time taken for the remaining investigations was around 3.6 months. The average time from issue of investigation reports by Internal Audit to adoption by the Audit Committee was around 2-3 months.

FÁS should put in place a comprehensive set of procedures for investigating and reporting suspected wrongdoing whether this comes to light through a disclosure by a staff member or otherwise. Matters for consideration include

- Where a disclosure is involved, nominating the person to whom it should be made
- Defining the different stages of an investigation and by whom they should be carried out
- The type of circumstances that determine by whom the stages should be carried out
- How the preliminary facts and evidence should be reported and to whom
- By whom or what process a disciplinary investigation should be initiated.

General Conclusions

FÁS has an appropriate organisational structure and governance organs. These are consistent with its governing legislation and the Code of Practice for the Governance of State Bodies. It has established sub-board structures and set out authority limits. There is scope to formalise reporting from the executive level and advisory committees to the Board. The composition of the Board is due to alter under recent legislation.

The terms of reference of FÁS's Audit Committee are broadly in line with best practice as set out in the Combined Code and the provisions of the Code of Practice for the Governance of State Bodies.

FÁS has taken steps to review its Internal Audit function and move to a co-sourcing model for part of its work. It is important that a mechanism is put in place to ensure that the Board is informed at the earliest opportunity of significant matters identified by Internal Audit that may impact on governance, control and accountability.

In order to ensure that key functions are exercised by the most appropriate organ of FÁS

- The annual review of the system of internal financial control should be conducted by the Board rather than delegated to its Audit Committee. This is because the Audit Committee itself is an element in the overall plan of control.
- Responsibility for the administration of the risk management process should be assigned to a unit other than Internal Audit which should be in a position to independently evaluate the operation of the system.

There are two main ways of ensuring that the work of an organisation is reasonably free from irregularity and its values are practiced by the personnel that comprise it - through

- a well bedded-in risk management system
- encouraging a culture of compliance and disclosure by staff of matters they consider improper.

FÁS's risk management function needs to be revamped. Without appropriate risk identification at a functional level and a consideration, at that level, of the mitigating controls, it is difficult, if not impossible to identify controls that are key to the management of the risks identified. The re-establishment of a functioning risk management framework needs to be prioritised. This should be done in association with an in-depth review of controls.

The Board should set out policies and procedures to underpin confidential disclosures, investigations and disciplinary procedures.

5 Performance Management and Compliance

5.1 This chapter examines the arrangements for performance reporting and the supply of management information to the Board. It also reviews the discharge of FÁS's reporting duties under the Code of Practice for the Governance of State Bodies and the management of the Competency Development Programme.

Output and Performance Measurement

5.2 Organisations such as FÁS should measure performance in quantitative terms and evaluate that performance from a qualitative viewpoint. The FÁS Statement of Strategy 2006-2009 notes that business plans would set out the measurable contribution that each unit or division would make to the achievement of the high priority goals and that the plans would, therefore, provide the details of the activities, resources, timeframes, targets and standards of performance relating to each performance measurement indicator identified in the Strategy Statement. At the business planning level, targets are set in both quantitative and qualitative terms.

5.3 In the Statement of Strategy, FÁS signalled that it would like to move towards qualitative measures. It undertook to shift the emphasis of FÁS's performance measurement indicators towards qualitative measures and noted that this would increasingly require FÁS to monitor and gain feedback from its various customers.

5.4 At the corporate level, the Board receives a report each year on progress in implementing strategy. The report for 2008 was presented to the Board in September 2009. One section of the report provided details of the actions taken by each of the FÁS divisions to implement the strategy and the outcomes for each of the 2008 business priorities. The report noted that, broadly speaking, the performance indicators and targets set out in the divisional business plans were met. While the main body of the report provides some detail on the achievements by divisions, it does not, generally, compare achievement against target in quantitative terms. The report, however, included a checklist of performance against key targets under around 80 headings.

The performance report needs to be restructured so as to distinguish clearly between

- Effectiveness measures (which record achievement on ongoing programmes) against quantifiable targets
- Change management actions (which are set out in terms of activities which should be time bound)
- Stakeholder satisfaction ratings.

Restructuring on this basis would facilitate Board review.

Financial and Operating Information

5.5 Monthly and annual reports are submitted to both the Executive Board and the Board of FÁS.

Monthly Reporting

5.6 The Management Accounting Unit in FÁS has the responsibility for conducting budget reviews, identifying variances and reporting to the Executive Board and Board of FÁS.

5.7 The process by which financial and operating performance is monitored is that the Director of Finance presents a monthly Financial and Operating Activity report to the Executive Board while the Board of FÁS receives a similar report at its meetings. However, the paper that goes to the Executive Board contains somewhat more detail than that paper presented to the Board.

Services to Business Division

The Services to Business division performance reporting was reviewed in the course of the examination. The business plans for the Services to Business division contained performance targets for the Competency Development Programme (CDP) in 2007 – the plan stated, *inter alia*, that 27,000 participants would be trained, CDP activity would be expanded to €39 million and 25% of training was to be provided to low-skilled employees. The plan also included targets for the standard of training - 90% of the training should be on certified programmes. However, performance was not reported against these targets. The review by the Services to Business division for that year stated that it had achieved a record level of expenditure on the CDP but did not report on performance against other targets. The failure to report performance against the targets may have been partly due to a lack of an IT system which had not been fully developed during 2007. In addition, the qualitative target referred to the placing of individuals on courses that could lead to certification rather than on a measure of achievement of those trained.

5.8 The financial information provided to both the Executive Board and the Board shows the allocated budget and the expenditure to date for monthly reports and annually for end-of-year reports aggregated by type of expenditure. The expenditure is further analysed across six functional units – Training Services, Community Services, Services to Business, Employment Services, Regional Support and Central Administration/Technical Support.

5.9 Operating activity is summarised in terms of activity days. The reports show the planned number of days and the outturn for most programmes.

5.10 The financial and activity information is accompanied by a report that provides some further information on the variances but does not, generally, analyse the causes.³⁸ The level of detail provided to the Executive Board is greater than that provided to the Board.

Annual Reporting

5.11 The Executive Board and the Board are each presented with an annual financial and activity report. The report for 2006 which was presented in February 2007 noted that expenditure at €40 million was 0.6% over budget while activity days were 1.9% below target at 11.2 million.

5.12 A table showing budgeted expenditure and outturn for 33 headings accompanied by a six-page report was presented to the Executive Board while a separate table showed the budgeted and actual activity days for 15 programmes. The report noted that capital expenditure was broadly in line with the budgeted amount and identified overspends and underspends for current expenditure during the year as well as variances in the activity days for most programmes.

5.13 Advertising expenditure is not identified separately in the table of expenditure as it is included in the overall amounts for each programme for which it is incurred. However, the report to the Executive Board included a section which reported that advertising, promotion and market related costs, excluding Opportunities events, were €2.6 million or 79% over budget for the year.

³⁸ For example, a report notes that an underspend on a programme is attributable to fewer activity days than planned. However, the report does not identify the cause of the reduced activity days.

The report identified the programmes with the largest variances from budget for advertising and promotion expenditure. The largest overspends were on the CDP (€2.3 million) and the Media Campaign for Employers and Job Seekers (€0.7 million) while the largest underspend was on the Science Challenge programme (€0.7 million). Information on variances on advertising and promotion expenditure were also presented monthly to the Executive Board during the year.

5.14 The Board was presented with the same expenditure and activity tables that the Executive Board received and a single page report. The largest variances from budget for activity levels were identified and there was a single paragraph identifying some of the larger expenditure variances at programme level. There was no commentary on the overspend on the advertising expenditure.

Information provided to the Board

The financial information presented to the Board was sufficient to enable it to monitor whether overall expenditure was being managed within budget. The expenditure details provided identified variances from budget at programme level.^a However, while the Executive Board was provided with information that enabled it to identify some reasons for variances within programmes, the information provided to the Board did not enable it to do this.

By way of example, the overall budget for the Services to Business division was set at €33.4 million in 2006. The outturn for the year was €37.4 million - €4 million over budget. This variance was reported in the end-of-year reports to both the Executive Board and the Board. However, in this instance no activity targets were set or reported and the overall budget variance masked the individual variances for different components of expenditure. Training grants, programme development and other direct programme costs, which accounted for over 94% of budgeted expenditure, were underspent by around €0.5 million at €30.8 million and accounted for 82% of actual expenditure. On the other hand, most of the excess expenditure was accounted for by advertising and promotion costs which were €3.2 million over budget at €3.6 million.

Variances from budgets are inevitable as activity levels on programmes will rarely be exactly as anticipated at the start of a year. While it is acknowledged that a Board may not require the same level of detail about matters as that provided to the Executive Board, the reasons for significant variances within programmes – for example, when advertising expenditure is almost double the budget allocated – should be notified to the Board.

Ultimately, to maintain effective budgetary control an overspend in one area must be compensated by an underspend in another, whether within a programme or on different programmes, and the Board should be provided with the information that allows it to decide whether a switch in expenditure is appropriate or whether reduced activity on a programme should result in a surrender of funds to the Exchequer.

The Board might consider that this would be best dealt with by a finance sub-committee of the Board that could monitor variances from budget in some detail and report regularly to the Board.

Note a: For example, Services to Business training, Apprenticeship, Opportunities Exhibitions and the Jobs Initiative programmes.

5.15 The 2008 Statement of Internal Financial Control (SIFC) noted that previous financial reports to the Board had not highlighted expenditure overruns, or variances, in certain areas of FÁS to the same extent as did reports issued to the Executive and that the Board had instructed that Board financial reports should clearly reflect the control function's concerns and must highlight budgetary overruns and variances and the underlying reasons for them.

5.16 The monthly financial information submitted to the Board was slightly amended subsequently by the addition of a further information column which expressed expenditure variances from budget in percentage terms. While the format of the information provided was otherwise unchanged, the accompanying report further analysed the variances in order to isolate the effect of volume and cost factors. No further explanations for the variances were provided.

While performance reports that distinguish volume and cost factors for all programmes are now being provided to the Board, further information that explains and comments upon significant variances could improve overall performance management.

5.17 FÁS stated that it is its intention to develop a revised report format for reporting financial information to the Board in consultation with a new Board when this is appointed.

Reporting to the Minister

5.18 Section 12 of the Labour Services Act, 1987 (the Act) identifies certain reports and information that FÁS is required to submit to the Minister. These include a report no later than the end of September each year setting out its proposed activities for the following year and providing estimates of its expenditure for those activities. No expenditure may be incurred until the Minister approves the proposals. This process is part of the estimates cycle that takes place annually in all departments and with all agencies.

5.19 The Act also states that FÁS may not carry out any activities that are not specified in the report nor may it exceed the agreed expenditure estimate without the prior approval of the Minister and the Minister for Finance. The Minister may direct FÁS to provide, or not to provide, specified services and may also direct FÁS about the amount of expenditure to be incurred on specified activities or services.

5.20 The 2001 Code specified the nature and timing of reports which State bodies are required to submit to the Minister. In addition to the annual report and financial statements, the Chairman of a State body is required to submit a comprehensive report to the Minister annually. Among items to be included in this report are

- an affirmation that all appropriate procedures for financial reporting, Internal Audit, procurement and asset disposal are being carried out
- a statement on the system of internal financial control – this is also published with the financial statements
- affirmation that codes of business conduct for directors and employees have been put in place and are being adhered to.

5.21 In practice, the reporting arrangements between the Department and FÁS comprise principally

- the setting of budgets and reporting performance against them
- activity levels specified in terms of activity days for programmes
- the reports from the Chair of the Board to the Minister under the Code.

The Act and the Code identify certain responsibilities of the Board and the management of FÁS and also set out some requirements for reporting by FÁS to the Department as well as identifying the obligation to agree budget and activity levels. In addition, the annual estimates process and the annual output statements lay down specific requirements for reporting by FÁS to the Department. These processes could be further enhanced by ensuring that the following are more specifically set out

- the services to be provided by the agency
- the standard against which delivery of these services would be measured (quantum and quality within a specified period)
- how performance against these standards would be verified and reported
- the financial and human resources required
- reporting financial performance
- protocols for reporting in regard to governance.

Chairman's Report – Substantiating Documentation

5.22 In order to be able to report on the matters specified, the Chairman needs assurance that the internal controls that the Board has put in place have operated effectively. Within FÁS, its Internal Audit Unit has responsibility for the compilation of supporting information that provides assurance to the Chairman and Board about the assertions they are required to make in the SIFC and the annual report to the Minister. A Compliance Register is prepared by the Internal Audit Unit together with a file which contains evidence to support the report and other requirements of the Code.

5.23 The draft SIFC and Chairman's report under the Code are reviewed by the Audit Committee prior to their consideration by the Board. The Audit Committee also considers the reports from Internal Audit for the year prior to making its recommendations. The Code states that the SIFC should include, *inter alia*, information (if appropriate) about weaknesses in internal financial control that have resulted in material losses that require disclosure in the financial statements or the auditor's report thereon.

SIFC and Chairman's Report 2006

5.24 In October 2006 and February 2007, the Audit Committee considered INV 137 – the Internal Audit report arising from concerns about procurement in the Corporate Affairs section.

5.25 At an Audit Committee meeting in March 2007, when discussing the SIFC for 2006, the Chairman of the Committee noted “*a general level of discomfort among the audit committee in regard to the exercise of controls in regard to procurement and, in particular, to the Corporate Affairs investigation.*” The minutes note that the Committee expressed the view that sanctions for those that breach internal controls needed to be clarified and reinforced. The Committee agreed, following discussion, that the wording in the SIFC could be recommended to the Chairman of the Board and that the Audit Committee's concerns about procurement would be addressed in its 2006 report to the Board. The SIFC that was ultimately adopted included a statement that “*Internal Audit has pointed to some weaknesses in procurement and the Board has taken steps to address them.*”

5.26 The Audit Committee's annual report for 2006, which was considered by the Board in April 2007, noted, without specifying them, that a number of significant weaknesses in controls were identified as having arisen in previous years in the area of Corporate Affairs. These related primarily to purchasing/tendering matters and processes in respect of the control of procurement activity. Internal Audit made recommendations aimed at addressing the weaknesses in relation, *inter alia*, to the control issue and putting processes in place to maximise FÁS's control over procurement matters in this area.

5.27 The Executive was asked to provide the Committee with a plan of action by the end of the second quarter of 2007, together with a timeframe for implementation, in order to achieve the following

- an increased awareness, on the part of the relevant managers, of the legal aspects of the requirements governing procurement in the public sector and of the risks to FÁS from breaches of these requirements
- an understanding among managers of the sanctions that can apply to those responsible for breaches.

5.28 At the April 2007 meeting, the Board also noted the Compliance Register supporting the Chairman's report for 2006 under the Code and approved the SIFC. The report stated that it was the opinion of the Audit Committee that Internal Audit was providing very effective monitoring of control systems within FÁS and was facilitating continuous improvement in financial and administrative controls. The Board noted the Audit Committee's report.

SIFC and Chairman's Report 2007

5.29 The Compliance Register for the 2007 Chairman's report to the Minister under the Code was reviewed in the course of this examination. Much of the documentation on the file focused on confirming that requirements of the Code had been fulfilled including confirmation that Board members had complied with the provisions of the Ethics in Public Office Acts, 1995 and 2001. The file also provided detailed information where this was required under the Code – for example, details of asset disposals.

In regard to compliance with procurement procedures, while a memorandum on the file from the ADG of Finance confirmed that competitive tendering was the required procedure for procurement and that this requirement was reflected in the internal procedures the file did not record whether the procedures in place had operated effectively in the period under review. The Board should be made aware of any reservations about actual compliance since this is the purpose of its internal control review.

5.30 In March 2008, the Audit Committee agreed to recommend the 2007 SIFC for signature by the Chairman but stated that, from the following year, it would require a joint report from the Director of Finance and the Director of Internal Audit that would certify the effectiveness of internal controls in FÁS. In May 2008, the Audit Committee considered the constituent elements of the Chair's proposed report for 2007 and considered the Audit Committee's annual report. The Audit Committee report noted that the Committee had requested a closing statement from management in respect of the report of the investigation in Corporate Affairs addressing all the issues that required a management response. In overall terms, the report concluded that, based on the audit work undertaken in 2007, Internal Audit was of the opinion that adequate financial and administrative controls were operating satisfactorily. The Board noted the report.

5.31 In June 2008, the Board approved both the SIFC and the Chair's 2007 report to the Minister under the Code. The paper presented to the Board noted that the Audit Committee had considered the report at its meeting in May 2008 and that it recommended the report, which included the SIFC, to the Board for adoption and signing by the Chairman.

SIFC and Chairman's Report 2008

5.32 In July 2009, the Audit Committee presented its annual report for 2008 to the Board. The report stated that, in regard to financial control in FÁS, the Committee had certain concerns. The report noted that the system had three main components

- line management had a primary role to ensure adherence to policies and procedures
- financial accounting and procurement provide a secondary level of control and have a role to oversee, challenge and prevent any breaches of policies or procedures and
- Internal Audit has a role in highlighting breaches identified in the course of its work and in recommending appropriate actions to strengthen controls.

5.33 It stated that in a number of instances the controls did not operate at either the primary or secondary levels and the breaches were only identified during Internal Audit reviews. The report stated that the duties of the primary and secondary levels to effectively exercise control and to prevent breaches needed to be addressed so that the Audit Committee and the Board could be satisfied that these responsibilities were being met.

5.34 The report concluded that "*based on the audit work undertaken during 2008, Internal Audit was satisfied that adequate financial and administrative controls were operating satisfactorily in most of the areas audited. However, audits of certain Head Office functions indicate a lack of compliance with procurement procedures and identified weak internal financial controls.*" The Board noted the report at its meeting in July 2009.

5.35 At its July 2009 meeting, the Board approved the Chairman's annual report to the Minister and the SIFC and noted the Compliance Register. The SIFC included, *inter alia*, information about actions that had been taken to strengthen financial control and risk management. The minutes of the meeting note that Board members' queries about the wording of the SIFC with a view to providing reassurance with regard to compliance and avoidance of a reoccurrence of past systems control failures were responded to and noted that the Board would be updated on progress in this regard at a future meeting. The SIFC is included in the Chairman's report for 2008 at Appendix A.

5.36 The examination team was informed that a decision by the Audit Committee in March 2008 that the Directors of Finance and Internal Audit should provide a joint report that would certify the effectiveness of internal controls in FÁS was not implemented for 2008.

In accordance with the revised procurement procedures approved by the Board in March 2009, FÁS stated that it is planning to introduce annual declarations of compliance with procurement procedures. These declarations will have to be signed off annually by the managers, directors and ADGs of each division and will form part of the Compliance Register prepared by Internal Audit. It is planned to have the first declarations completed at the start of 2010 in relation to the previous year.

Consideration should be given to introducing the requirement for declarations by management at the appropriate level in regard to other assertions that the Chairman is required to make under the Code – for example, affirmations that Government policy in regard to the pay of all employees have been adhered to.

5.37 The Chairman's report to the Minister for 2008 noted a number of compliance failures

- The bonus paid to ADGs in 2008 was 11.5% of actual salaries paid. The Department of Finance guidelines require that the value of the bonus scheme be capped at 10% of salaries paid in the relevant year. These bonus payments were approved by the former Director General. The payments were sanctioned by the Department in consultation with the Department of Finance.
- While the Code requires draft unaudited annual accounts to be provided to the Department and the Department of Finance not later than two months after the end of the financial year, draft annual accounts for 2008 were not provided to the Department until 6 April 2009 and the Department of Finance until 19 June 2009.
- Under the Code, the annual report and accounts should be published not later than six months after year end. The report noted that, in order to allow Internal Audit and the Comptroller and Auditor General's financial audit and investigation teams to complete their work it was not possible to meet the deadline. The annual report and accounts were approved by the Board on 2 July 2009.

The Chairman's report to the Minister for 2008 is attached at Appendix A.

Programme Delivery – Competency Development Programme

5.38 A particular challenge facing organisations arises when they are called upon to deliver programmes that involve new lines of activity or a substantial extension of activity. The experience of FÁS in attempting to increase skills of the existing workforce was reviewed in some depth in the course of this examination.

Programme Background

5.39 In 2004, increased funding of €60 million for training the employed over the period 2005-2008 became available to FÁS. As a result, FÁS expanded its Competency Development Programme (CDP) with expenditure on the programme increasing from €2 million in 2003 to €45 million by 2007 before falling back to €32 million in 2008.

5.40 The overall goals of the CDP, to increase the portable and transferable skill levels of employees through certified training with a focus on priority needs in the labour market and the needs of low skilled workers, were identified in the FÁS Training Strategy which, in turn, broadly aligned with the related strategic goal in the Department's Statement of Strategy.

5.41 The detailed findings of the review are set out at Appendix E. A summary of the key examination findings is set out below.

Scheme Administration

5.42 Training under the programme is provided by external training providers. FÁS funded these providers on the basis of a contribution per participant per training day. When the additional €60 million funding was granted it was envisaged that training would be at a cost of around €900 per participant. In the period from 2005 to 2008, around €11 million was paid out in order to fund training for around 106,000 participants – an average cost of €1,047 per participant.

Allocations based on cost per participant do not take account of the varying duration of training courses. A more meaningful allocation basis might be the cost per training day, perhaps weighted to allow for the different course types.

5.43 Training was provided in two streams. Around 90% of the training was delivered under a regional stream under which FÁS procures trainers through its regional offices to provide specific courses. Under a national stream, the Strategic Initiatives and Alliances (SIA), organisations were contracted to provide targeted amounts of training. These organisations are referred to as Strategic Partners.

The SIA did not achieve the anticipated coverage between 2005 and 2007. It delivered less than half the volume of training days envisaged when the Board approved proposals from the organisations.

Monitoring

5.44 Monitoring of training delivered by external training providers needs to be carried out in order to assure FÁS that standards are achieved and targets are met. There were gaps in monitoring insofar as around half of the courses in the regional stream reviewed by the examination or Internal Audit had not been the subject of a monitoring visit. Monitoring visits are infrequent in the SIA stream but the risks arising are mitigated by other procedures in place including regular planning and review meetings between FÁS and the SIA strategic partners.

5.45 One breach by a training provider came to light and was investigated by Internal Audit. This found that a training provider in the midlands had claimed for participants that had not been trained, had not registered some participants with the certifying body and some tutors that were not registered on the National Register of Trainers (NRT)³⁹ were used to provide courses.

5.46 The importance of monitoring had been highlighted in 2003 following investigations into courses provided under the Safe Pass and Construction Skills Certification Schemes. While FÁS implemented a series of recommendations following reviews at that time, it is a matter of concern that similar issues to those identified as far back as 2003 are still currently an issue in the CDP.

It is desirable that FÁS carry out increased levels of monitoring of training delivered by external providers in order to gain assurance that standards are attained and that targets are reached.

Goal Achievement

5.47 The core objectives of the programme were to

- provide training to meet priority needs in the labour market
- enable participants to move to higher levels than those previously achieved on the framework of qualifications of the National Qualifications Authority of Ireland (NQAI)
- address the needs of the low skilled

³⁹ All training providers that wish to deliver training for the schemes and programmes offered by FÁS must be listed on the NRT database.

- provide participants with transferable skills.

5.48 Information deficits reduced FÁS's capacity to assess the extent to which the CDP achieved its objectives. Prior to 2007, FÁS did not have a management information system for centrally recording information about individuals who received training under the CDP. As a result, 2008 was the first year in which data was centrally recorded for all participants.

5.49 Key performance indicators were set at the level of business plans but these were not monitored and the information systems did not capture all the necessary information – for example, the extent to which participants achieved certification.

Addressing Priority Training Needs

5.50 A goal of the programme is to provide training that meets priority needs in the labour market. The examination found that training was generally delivered to meet training needs that had been identified to meet skills gaps. Some courses were, however, the result of approaches from training suppliers.

Training provided following systematic identification of training needs gives the best prospect of achieving the optimum return for the investment. Supply driven training may not achieve as good a return.

Enabling Employees to advance on the NQAI framework

5.51 A programme objective is to enable participants to move to higher levels than those previously achieved on the framework of qualifications of the NQAI. A number of factors make it difficult for FÁS to quantify the extent to which this goal was achieved

- Based on the data for 2008, around 90% of training is delivered through courses that are validated by certifying bodies as qualifying for certification. Around 76% of participants took part in courses that are certified by bodies affiliated to the NQAI or whose courses are aligned with its framework of qualifications. The remainder of certified courses were certified by bodies outside the NQAI.
- FÁS does not have a record of the extent to which participants on certified courses achieved certification. It records participation levels only.
- There is an incomplete record of the educational attainments of participants prior to training.

FÁS should measure achievement by reference to the numbers achieving certification and not merely by reference to participation levels.

At a national level, it not may be appropriate to review the measurement of achievement in regard to upskilling

- by reference to the NQAI framework – due to the proportion of training delivered outside that framework and
- in terms of moving up a framework of qualifications – as training provided to meet skills gaps may necessarily be at lower levels than that previously achieved for some individuals.

Training for the Low Skilled

5.52 A key aim of the CDP is to address the needs of the low skilled who are classified as those with qualifications below level 5 on the NQAI. A considerable proportion of participants took part in courses aimed at the lower skilled even in cases where their educational attainment prior to training was categorised as higher. 43% of those that took part in courses certified by awarding bodies of the NQAI were placed on courses that were pitched at levels 1 to 4 while only 25% of those trained, whose educational attainments prior to training were captured, could be classified as low skilled prior to training.

Around 25% of those whose educational attainments prior to training were captured were classified as low skilled prior to receiving training.

Transferable Skills

5.53 FÁS has not made any assessment of the extent to which training under the CDP has been successful in equipping participants with transferable skills.

In order to assess achievement against the objectives of the programme, performance indicators that are aligned with the goals of the programme and are measurable should be set for each key objective. The information systems should record all the information that is required and generate performance reports that provide the key performance information to management.

Training Evaluation

5.54 Evaluation of training outcomes is essential in order to form an opinion about the effectiveness of training. Evaluation can be at different levels – for example, the Kirkpatrick Model which has four levels of evaluation ranging from level one, evaluation by participants, to level four evaluation to ensure that the participant’s organisation has benefited from the training. The examination found that while the training is subject to level one evaluation insofar as participants complete evaluation forms there is no systematic review of these forms by FÁS. Certification achievement, which provides evidence of a skills or knowledge transfer and could be taken as a proxy for level two evaluation, is not recorded by FÁS. It is acknowledged that evaluation at the higher levels on the Kirkpatrick scale, which are concerned with the extent of on-the-job outcomes and value added for the participant’s organisation, would not be within FÁS’s scope.

FÁS should put in place a process to ensure that there is systematic evaluation of the effectiveness of the training that it subvents.

Risks to Effectiveness

5.55 There are a number of risks to the effectiveness of the CDP

- Overall, the programme attempted to reach employees through their employers. Consequently, the programme had to engage employers and win their support. However, the goals of employers and of FÁS may not be wholly congruent. While both desire upskilled workers, portability of skills may not sit easily with employers’ interest of staff retention.

- A key target of the training was the low skilled, which research shows are the least likely to receive training. Over 40% of participants were placed on training that could yield certification that was classified within the low skills category. However, 75% of participants already had qualifications above the low skills category. While it is likely that many people with certification above levels 1-4 on the NQAI framework would benefit from the acquisition of specific skills there remains some risk of deadweight.
- If the training provided is likely to be of benefit to a participant's employer, then it is likely that a proportion of the training would have been provided by the employer in any event without a contribution from the State. This is a further deadweight risk.
- Risk arises from certain activity being driven by the availability of funds. Programme targets revolved around the training of a quota of participants and absorbing the available funding. This inevitably leads to a risk to the achievement of optimum training effectiveness.
- There is risk associated with training providers and FÁS having goals that do not completely align. Some procurement of training arose from training providers notifying FÁS of the availability of courses. While needs were identified for the training procured as a result of these approaches, these may not have been the same as those that FÁS would have prioritised if it had first identified the needs and then procured the training.

Views of FÁS

5.56 The Director General noted that the CDP was a continuation of a small scheme introduced in 2003 which in itself was a major change in the way FÁS dealt with the upskilling of persons in employment. The delivery mechanism had to take account of the need to implement the measures urgently. Alternative approaches would have required a longer lead time and more resources. Evaluation of the programme would need to take account of a number of facts

- The Enterprise Strategy Group Report *Ahead of the Curve* (2004) focused on the need to upskill the workforce for greater flexibility and versatility. The Report stressed that this would be required in order that the economy would become high skill/value-added.
- When the ESF funding for in-company training was confirmed in December 2004, the amount was very significant. The Department ultimately requested FÁS for assistance in implementing the measure.
- FÁS offered to use the new CDP as a mechanism to apply the funding but at far greater levels than had been envisaged when the programme was conceived. It also meant that little time was available to develop and put in place all the desirable and appropriate systems and infrastructure before the exponential growth of the programme commenced.
- The programme was expanded very rapidly at a time of serious national concern about the urgent need for upskilling of the workforce. The structure of the programmes enabled FÁS to work with the trainers to market and recruit to the programmes. The State resource requirement to administer the programme was accordingly minimised.
- The programme effectively focused on what the State considered appropriate to fund in order to compensate for the deficits of market failure. This resulted in the targeting of key areas such as training for the low skilled and, also, management in SMEs.⁴⁰

⁴⁰ Small to Medium Sized Enterprises.

5.57 The Director General also stated that new commitments under the programme have ceased since early 2009 and the only remaining activity is that which arises from the working through of existing contracts.

Views of the Department

5.58 The Department has pointed out that one of the drivers in the creation of the CDP was the recognition that the concentration of skills needed to occur at the level of the individual rather than the employer and that the CDP replaced a previous training support scheme that was regarded as being more employer-oriented in its focus.

5.59 The Department stated that the lack of consistency between the goals of employers and the State in the delivery of training goes to the heart of the market failure that the CDP is intended to address. The State has an interest in the skills development of the workforce that allows for greater employability and/or higher levels of productivity. Many employers are, however, reluctant to invest in training for fear that staff may leave or be “poached”. One of the functions of the CDP is to overcome this reluctance by assisting in the identification of training requirements and by providing financial assistance.

5.60 Overall, the Department pointed out that, at a strategic level training needs are identified by the Expert Group on Future Skills Needs on which the Department is represented. These needs are given expression in various policy documents including the 2007 report *“Tomorrow’s Skills: Towards a National Skills Strategy”* which alludes to a need for some 500,000 workers to increase their levels of educational attainment by at least one level on the National Framework of Qualifications (NFQ). The policy of FÁS has been to provide NFQ-accredited programmes, where possible, that contribute to this strategic objective and it has, over recent years, significantly increased the number of accredited programmes it offers.

General Conclusions

Financial information provided to the Board was sufficient to identify variances at programme level but did not identify significant variances for cost elements below that level.

There is scope for enhanced reporting in regard to compliance and performance through

- providing in-depth explanations to the Board of the causes of significant expenditure or activity variances
- reporting overall performance to the Board in a way that clearly distinguishes effectiveness measures, change management actions and stakeholder satisfaction ratings
- requiring management at the appropriate level to make declarations, supported by evidence, that all requirements under the Code of Practice for the Governance of State bodies are being adhered to.

Because the objectives of an organisation of the size and complexity of FÁS are likely to alter, even within each financial year, there would be merit in introducing mid-year budgetary reviews. A dedicated sub-committee of the Board could monitor variances on an ongoing basis and recommend adjustments to the Board.

In order to encourage more measurability of services delivered through FÁS it would be appropriate to enhance the output and outcome specification by the Department and the associated progress reporting.

Identified weaknesses in internal financial control should be set out in specific terms in annual Statements on Internal Financial Control. This would enhance internal and external accountability and ensure that remediation is prioritised.

In the case of programmes such as the Competency Development Programme FÁS should measure success by reference to the numbers achieving certification and not merely by reference to participation levels.

In order to assess achievements against the objectives of such programmes FÁS should set performance indicators that are aligned with each of the stated objectives of the programme. The related information systems should record all the required information and generate meaningful performance reports that enable management to make informed decisions about the operation of the programme.

Appendices

Appendix A Chairman's Report to the Minister under Section 10.2 of the Code of Practice for the Governance of State Bodies, 2008

i) The role and remit of FÁS remained unchanged in 2008. The Irish economy and labour market experienced a dramatic downturn in 2008. This had significant implications for the scale and mix of FÁS programmes and services during the year. In this context of rising unemployment, FÁS responded with a range of initiatives in 2008 to assist those who were coming on to the Live Register. Particular focus was placed on those who had lost their jobs as a result of the downturn in the construction sector. The number of new apprentices fell by 44%, compared to 2007, and the number of redundant apprentices notified to FÁS rose to 3,108, mainly in the construction trades. FÁS responded by amending the Apprenticeship Rules to permit redundant apprentices to progress to their next off-the-job phase of the Apprenticeship Scheme. In addition, to assist redundant apprentices to complete their on-the-job training with employers, a Redundant Apprentice Rotation Scheme was introduced where employers are supported to provide on-the-job training for a redundant apprentice while their employed apprentice is attending an off-the-job training block in FÁS, or an Institute of Technology.

FÁS continued to provide its job-matching service through its Employment Services offices and website. Recruitment activity by employers fell substantially in 2008, in line with the slowing labour market. While 96,000 job-vacancies nationwide were notified to FÁS, this represented a significant fall from the record total of 142,000 notified in 2007. Employers continued to report a high level of satisfaction with FÁS recruitment services with surveys showing that 85% of vacancies were filled within two months of notification.

Training programmes for the unemployed and job-seekers were completed by over 20,500 persons in 2008. Among the beneficiaries of these training programmes were 1,679 early school leavers, who completed training in Community Training Centres, 2,665 people from disadvantaged backgrounds, who completed Local Training Initiative programmes, and 1,444 people with a disability, who received training through Specialist Training Providers. FÁS also developed a suite of new training courses, and new modes of delivery, to respond to the needs of the large numbers of highly-skilled, very employable, persons seeking further training and qualifications.

While FÁS continued to provide its successful range of programmes and services in 2008, much of the public comment on FÁS during the year related to issues of corporate governance, audits and spending. Throughout 2008, FÁS strengthened its procedures and practices in order to avoid a re-occurrence of the issues that gave rise to such concerns.

ii) There are systems and processes in place to ensure that all appropriate procedures for financial reporting, internal audit, procurement and disposal of assets are being carried out.

iii) Statement on the System of Internal Financial Control

Governance and Financial Controls

On behalf of the Board of An Foras Áiseanna Saothair (FÁS) I acknowledge our responsibility for good governance and for ensuring that an effective system of internal financial control is maintained and operated. In discharging its functions, the Board has delegated certain responsibilities to the Director General and the Executive Board while reserving certain matters for its own decision.

The system of internal control can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or

irregularities are either prevented or would be detected in a timely period. The system requires that line management, the executive and the finance, procurement and HR functions exercise stringent control and report any control failures.

Developments during the year

In 2006, Internal Audit completed an investigation of a head office department which uncovered breaches of procurement procedure and internal controls following which an internal disciplinary investigation was carried out by HR. The Comptroller and Auditor General subsequently completed an investigation of these matters. In May 2008, the C&AG published Special Report 10 – *General matters arising on audits: Non-commercial state sponsored bodies*. The section of the report dealing with FÁS highlighted issues dealt with in the Internal Audit report, regarding breaches of public procurement rules and a lack of value for money in respect of advertising and significant projects, including the development of a website.

Arising out of the report of the Comptroller and Auditor General, FÁS attended the Committee of Public Accounts of Dáil Éireann (PAC) on five occasions in late 2008. During the course of these public hearings, matters relating to breaches of procurement procedure, foreign travel, value for money, control structures and corporate governance were raised. The PAC issued an interim report in February 2009 which made a number of recommendations. Since then, the Comptroller and Auditor General has completed a follow up report on advertising and promotion in FÁS and is drafting a second report dealing with internal controls and governance arrangements in FÁS. The Board will address the matters raised by the C&AG in his forthcoming reports and will take all necessary and appropriate steps to address any control deficiencies identified by the C&AG. In the meantime, the Board has taken steps to implement such recommendations contained in the report of the PAC as are within FÁS's control.

Improvements to strengthen financial controls, which have been or will be implemented, are described later in this statement.

Financial Control Environment

The Board has taken steps to ensure an appropriate control environment exists by:

- the consideration, and approval, of the organisational structure
- delegating to the Director General responsibility for ensuring management responsibilities are clearly defined
- establishing procedures for reporting significant control failures.
- ensuring appropriate corrective action is taken. This includes an active Audit Committee, an Internal Audit function, the Director General's monthly Executive report to the Board and presentation to the Board of activity and financial results, current month and year to-date, on a monthly basis.

Action to strengthen the financial control environment

In the light of the issues raised in the report of the PAC, the Board has reiterated to the Executive its requirement that all decisions requiring Board approval must be brought to the Board and that the Board must be kept fully informed, in a timely way, of concerns that lie within their domain.

Risk Management

A formal process for the identification, evaluation, mitigation and management of business risks has been established and includes:

- the identification and nature of risks
- the likelihood of occurrence
- the financial or other implications
- the mitigating factors
- plans to manage the identified risks
- monitoring and reporting on the process.

Action to strengthen risk management

The Board recognises the need to ensure that risks are reviewed on an annual basis. A number of risk registers were not updated in 2008. The Board has instructed that all outstanding risk registers be updated by September 2009 and that all risk registers be updated annually thereafter. Arising from a recommendation in the PAC's interim report, Internal Audit has scheduled a number of audits to review the risk profile of all operational and support units. These audits will be completed by December 2009 and will influence the drafting of a risk based audit plan for 2010. From December 2009 onwards, senior management will be required to sign off, on an annual basis, confirming that all risks in their area of operations are properly controlled.

Key financial control processes and procedures

The system of internal financial control is based on a framework of regular management information, administrative procedures, including segregation of duties, and a system of delegation and accountability. In particular it includes:

- a comprehensive budgeting system with an annual budget, which is reviewed and agreed by the Board;
- reviews by the Board of monthly and annual financial reports which indicate activity and financial performance against forecasts;
- setting targets to measure financial and other performance;
- procedures for the control of capital investment that are in accordance with Guidelines for the Appraisal and Management of Capital Expenditure Proposals issued by the Department of Finance in February 2005.

Action to strengthen key financial control processes

The Board has noted that previous monthly financial reports to it did not highlight expenditure overruns, or variances, in certain areas of FÁS to the same extent as did reports issued to the Executive. The Board has instructed that Board financial reports should clearly reflect the control function's concerns and must highlight budgetary overruns and variances and the underlying reasons for these.

Internal Audit

FÁS has an internal audit function, which operates in accordance with the Framework Code of Best Practice set out in the Code of Practice for the Governance of State Bodies. The work of Internal Audit is informed by a risk analysis profile of expenditure and activity; cyclical audit coverage and the outcomes of previous audits. The focus of this work is generally on the areas of significant potential monetary risk to the organisation. These areas are audited more regularly than areas of the organisation where the nature of the activities poses a much lower monetary risk. The Internal Audit plans are based on the risk analysis and are approved by the Audit Committee on behalf of the Board.

The Audit Committee meets the Head of Internal Audit on a regular basis to review the work of Internal Audit, which includes a report of internal audit activity. On an annual basis, the Head of Internal Audit provides the Board, through the Audit Committee, with a report on the internal audit activity for the year. The report includes the Head of Internal Audit's opinion on the adequacy and effectiveness of the system of internal financial control.

The Head of Internal Audit has expressed the opinion that financial and administrative controls were operating satisfactorily in most of the areas audited in 2008. However, reviews of some Departments have indicated a lack of compliance with procurement procedures and identified weak internal financial controls. Details of control weaknesses and action taken to date, or proposed, are described later in this statement.

Action taken to strengthen Internal Audit

The Board has approved a revised structure for Internal Audit including resources for additional staff and external co-sourced audits. An external quality review of Internal Audit, as required by the IIA International Standard has been completed. A number of recommendations have been made that identify how the function can develop in line with best practice.

Control weakness leading to potential loss

In 2008, as a result of communications from a supplier, Internal Audit reviewed certain transactions and found that invoices totalling €22,000 had been paid by FÁS in respect of which there was no physical evidence of any goods or services having been received. The matter was subsequently referred to An Garda Síochána for investigation. The Garda investigation is well advanced.

Other actions taken to improve financial controls

In addition to the actions already identified, a number of other steps have been taken to improve financial controls. These include:

- A credit card policy has been approved by the Board. All executive credit cards have been cancelled. One credit card, with a maximum limit of €7,000, is maintained solely for procurement purposes and is subject to strict controls.
- In order to ensure adherence with Department of Finance guidelines for foreign travel, all foreign travel requests are currently approved by the Director General. The Discover Science programme, which involved a significant amount of foreign travel, ended in 2009.
- The FÁS Financial Authority levels and Procurement Procedures have been reviewed, enhanced and approved by the Board. The procedures now provide for disciplinary sanctions to be taken when breaches of procedures are identified and investigated. Procurement workshops are being delivered to all relevant management and staff reinforcing the need to adhere to procedures. These workshops will be completed by July 2009.

- A number of circulars have been issued by the Financial Control Department in FÁS reinforcing the requirement for staff to comply with all procedures.
- The Corporate Affairs function has been re-structured and re-focused. Controls have been enhanced in this area.
- The FÁS advertising budget has been reduced to minimum levels. A new communications strategy will be developed to ensure efficient customer communications and to highlight specific products and services to clients.
- Both the procurement and payment units have been instructed to ensure strict adherence to procedure. Where payment requests are made, in circumstances where procurement and authorisation procedures have not been complied with, written explanations will be sought from the division that initiated the transaction. The explanation, which must include details of whatever corrective action will be taken to ensure future compliance with procedures, must be signed by the manager of the person who initiated the transaction or requested the payment.
- The Procurement Department has commenced the roll out of strategic procurement in FÁS. This includes e-procurement and the initiation of a number of framework agreements with suppliers. The framework agreements will result in the establishment of an approved supplier list. Operational units must procure from the approved supplier list.
- A full audit of all procurement locations has been scheduled by Internal Audit for completion by year end.
- The Audit Committee has requested the finance function to highlight to the Committee the extent and nature of any serious control weaknesses that the function has identified.
- Internal Audit will deliver fraud risk awareness briefings to management and staff as part of the annual audit programme.
- FÁS does not currently have a formal whistle blower charter. An outline of such a policy was recently circulated to the Board by the Audit Committee. The Executive, at the behest of the Board, are working to develop a system.

Review of the System of Internal Control

The Board's monitoring and review of the effectiveness of the system of internal financial control is informed by the work of the Head of Internal Audit, the Audit Committee, which oversees the work of Internal Audit, the Executive Directors/Managers within FÁS, who have responsibility for the development and maintenance of the financial control framework, and the comments made by the Comptroller and Auditor General in his management letter or other reports.

I confirm that, for the year ended 31 December 2008 the Audit Committee, on behalf of the Board, conducted a review of the effectiveness of the system of internal financial control.

iv) Codes of Business Conduct for Directors and Employees have been put in place. Procedures are in place to facilitate the reporting of instances of non-adherence.

v) Government policy on the pay of the Director General and FÁS employees, with the exception of the Assistant Directors General bonus scheme, is being complied with. Please see vii below for details of non-conformance.

vi) Government guidelines on the payment of Directors' fees are being complied with.

The following compliance failures require explanation:

- Department of Finance guidelines require that the value of the Assistant Directors General bonus scheme be capped at 10% of the actual salaries paid in the relevant year. In 2008, the bonus paid in respect of 2007 was 11.5% of actual salaries paid in 2007. These bonus payments were approved by the former Director General. The payments applied and made to the Assistant Directors General were approved by the Department of Enterprise, Trade & Employment in consultation with the Department of Finance.
- Section 10.1 (ii) of the Code of Practice requires that draft unaudited annual accounts be furnished to the Departments of Enterprise, Trade & Employment and Finance not later than two months after the end of the financial year. Draft annual accounts were furnished to the Department of Enterprise, Trade & Employment on 6th April 2009 and the Department of Finance on 19th June 2009. The FÁS Finance Department have been made aware of this non-compliance and have been requested to ensure compliance in future.
- Section 10.1 (iii) of the Code of Practice requires that the annual report and accounts be published not later than six months from the year end. In order to allow Internal Audit, the C&AG's financial audit and investigation teams time to complete their work it was not possible to meet the deadline required by the Code. The annual report and accounts were approved by the Board on 2nd July 2009.

viii) There are no significant post balance sheet events that I am aware of.

ix) I confirm that capital procurement procedures comply with the Guidelines for managing the Appraisal and Management of Capital Expenditure Proposals.

x) I confirm that the Code of Practice for the Governance of State Bodies (The Code) and progress on its implementation was reviewed by the Audit Committee, on behalf of the Board, during the year and is being adhered to.

xi) There are no instances of actual or potential breaches of tax laws or other instances of non-compliance with tax laws that could have a significant effect on the finances or operations of FÁS.

Payment of FÁS Board Fees

From 1 January 2008 to 31 December 2008

Schedule of Fees and Expenses to Board Members 2008

Name	Fee €	Incurred Expenses €	Total €
Peter McLoone (Chairman)	24,000.00	-	24,000.00
Ruth Carmody	-	-	-
Caroline Casey	14,000.00	93.46	14,093.46
Tim Duggan	-	-	-
Des Geraghty	14,000.00	715.94	14,715.94
Jenny Hayes	14,000.00	-	14,000.00
Sally Anne Kinahan	14,000.00	-	14,000.00
Brian Keogh	14,000.00	-	14,000.00
Danny McCoy	14,000.00	-	14,000.00
Margaret Mernagh	14,000.00	2,563.68	16,563.68
Dermot Mulligan	-	-	-
James O'Leary	14,000.00	2,033.64	16,033.64
Brian O'Raghallaigh	-	-	-
Alice Prendergast	14,000.00	-	14,000.00
Niall Saul	14,000.00	-	14,000.00
Frank Walsh	14,000.00	179.18	14,179.18
Owen Wills	14,000.00	-	14,000.00
Total	192,000.00	5,585.90	197,585.90

Appendix B Breaches of Internal Purchasing Procedures

Figure B.1 gives some examples of transactions where internal purchasing procedures were breached.

Figure B.1 Breaches of Internal Purchasing Procedures

Year	Description	Amount €	Authorisation limits breached	Failure in the tender process ^a
2006	Production of TV advertisements for One Step Up campaign	612,000	✓ ^b	
2005/ 2006	Production and duplication of DVDs for jobs fairs (series of linked transactions)	485,000	✓ ^b	✓
2006	Advertising contract for Jobs Fair in New York ^c	458,000	✓ ^b	✓
2008	Opportunities 2008 (Contract balance)	380,000		✓
2008	Opportunities 2008 (Deposit)	260,000	✓ ^b	✓
2006	Advertising contract for Jobs Fair in Poland ^c	352,000	✓ ^b	✓
2006	Media consultancy	107,000	✓ ^b	✓
2005	Media consultancy	88,000	✓ ^b	✓
2008	Management training programme for the Competency Development Programme	48,400		✓
2008	Pilot risk assessment training programme	48,200	✓	
2007	Design services Opportunities 2008	41,000		✓
2007	Design for launch of Science Challenge Programme	30,000		✓
2007	PR Services for Opportunities 2008	28,000	✓	✓
2007	Sales contract for Jobs Ireland Munster	24,000		✓

Notes: a Failures in the tender process include one or more of the following – failure to assess tenders in accordance with pre-determined criteria, no evidence that a proper tender evaluation was carried out, inadequate involvement in or inadequate supervision of the tender process by the Procurement Unit, inadequate tender documentation retained by the Procurement Unit and the award of contracts by units other than the Procurement Unit.

b The transaction should have been submitted to the Board for approval but was not.

c There was no value set in the contract agreed.

Appendix C Survey of Foreign Travel in other State Organisations

As part of the examination a survey was conducted with 20 state organisations to obtain details of the foreign travel undertaken by the organisations in 2007 and 2008. The organisations surveyed were

- | | | | |
|-----------------------------------|--------------------------------------|---------------------------|---------------------------------------|
| ▪ IDA | ▪ Forfás | ▪ Teagasc | ▪ Enterprise Ireland |
| ▪ Bord na gCon | ▪ Tourism Ireland | ▪ ESRI | ▪ Central Bank |
| ▪ Beaumont Hospital | ▪ Horse Racing Ireland | ▪ Fáilte Ireland | ▪ Údarás na Gaeltachta |
| ▪ Irish Blood Transfusion Service | ▪ Institute of Public Administration | ▪ Ordnance Survey Ireland | ▪ Dublin Institute of Technology |
| ▪ The Irish Sports Council | ▪ Science Foundation Ireland | ▪ Shannon Development | ▪ National Treasury Management Agency |

The survey results are summarised and presented below.

Cost

Total flight costs for the 20 organisations were €8.6 million for the two-year period. Four organisations accounted for two-thirds of the expenditure – Enterprise Ireland, the Industrial Development Authority (IDA), the Central Bank of Ireland and the Dublin Institute of Technology.

18 organisations reported that they paid for flights for people other than staff members. While some organisations reported that they were reimbursed for some non-staff flights, around €1.5 million incurred for 4,000 flights for non-staff members was not reimbursed. Reasons provided for incurring these costs included costs for external examiners and external assessors, scientists for peer review services, staff members' spouses⁴¹ travelling by invitation to an official spouse's programme and Ministerial travel for trade trips.

Class of travel

The organisations reported that almost 85% of flights were short-haul flights. Economy class was used for over 98% of these. First class travel was used for four short-haul flights.

Economy class was used for two-thirds of long-haul flights. Business class was used for almost one-third while first class travel was used on 13 occasions.

Internal arrangements

17 organisations had written procedures governing foreign travel for their employees. All but one of these reported that they had based their policy on circulars or other direction issued by either the Department of Finance or their parent Department.

⁴¹ This refers to a single trip on which 52 spouses travelled.

Procurement Arrangements

15 organisations reported that they used an authorised travel agent. In regard to how these agents were procured

- six organisations used an open competitive process
- three used a limited competitive process
- five organisations said that they did not use a competitive process. One did not respond.

For the 15 organisations that had an authorised travel agent in place only six stated that all flights were booked through this agent. For the remaining seven⁴² organisations around 1,900 flights with a total value of just over €500,000 were booked other than with the authorised travel agent.

⁴² Two organisations did not provide the number or value of flights booked outside the authorised travel agent.

Appendix D Audit Coverage and Focus at FÁS

FÁS is subject to an annual audit by the Comptroller and Auditor General and has an internal audit function which reports to the FÁS Audit Committee. This appendix outlines the focus of audit activity and the coverage achieved by both functions over the period 2002-2008.

Internal Audit

The functions and development of Internal Audit have been outlined in Chapter 4.

Planning of Audits

Audits are planned using a model which combines a cyclical approach and a financial risk model. Under the cyclical element, the target was to schedule audits of regions and programmes over a two to three year period with the audit cycle then being repeated. The prioritisation of work on the basis of risk could impact on this target.

The risk model takes account of factors including

- the size of expenditure and of individual payments
- the extent to which a recipient of funding has control over expenditure and associated activity
- the quality of internal controls and previous audit findings.

The risk factors are weighted and areas with the highest risk are prioritised in the audit programme. This prioritisation has caused the cyclical schedule to extend over a longer period with longer intervals between audits in individual areas but has attempted to ensure that higher risk areas are audited more frequently.

Audit Activity

Over the period Internal Audit has carried out

- **Project Audits** – planned assignments, including some ICT audits, where assurance is sought that internal control arrangements are adequate and are operating effectively
- **Special Reviews** – assignments that have not been included in the schedule of planned audits but may arise, for example, from a request by a division or in regard to an issue identified by Internal Audit.
- **Investigations** – assignments that have also not been included in the schedule of planned audits. They are usually triggered by parties internal or external to FÁS and involve suspicions that some form of fraud may have occurred.

Figure D.1 outlines the number of each type of audit or investigation conducted over the period 2002-2008.

Figure D.1 Audit assignments completed by Internal Audit over the period 2002-2008

Audit Assignments^a	2002	2003	2004	2005	2006	2007	2008^b
Audits	28	29	25	26	30	24	15
ICT audits	3	5	2	2	4	8	5
Special reviews	13	6	9	7	5	6	8
Investigations	8	12	15	13	4	5	2
Total	52	52	51	48	43	43	30

Notes: a The audit assignments listed in this figure were the assignments completed in the given year.
b Six further assignments, where the work was substantially complete in 2008, were finalised in early 2009.

Internal Audit's output when measured in numerical terms dropped somewhat in 2008. The Internal Audit report for 2008 stated that due to developments during the year, four audit assignments were not commenced as other work arose. In total, 30 audit assignments were completed during the year with 14 assignments being work in progress. Figure D.2 outlines the level of audits and investigations planned and completed in that year.

Figure D.2 Audit assignments completed by Internal Audit in 2008

Audit Assignments	Planned	Actual
Audits	21	15
ICT audits	3	5
Special reviews	11	8
Investigations	8	2
Total	43	30

Focus of Internal Audit Activity, 2006-2008

Internal audits addressed six main business functions as follows

- Community Employment Schemes where the focus was on the examination of project and payment files, financial control and project visits.
- Training Services audits that focused on reviewing trainee allowances, compliance with procurement procedures, control of income and cash receipts and motor vehicle/asset checks.
- Employment Services audits which focused on a number of schemes and grants – Local Employment Services, Employment Support Schemes, Wage Subsidy Schemes, High Support Process/Customised Training Fund/Workplace Equipment Adaptation Grant and involved a review of the payment and project files, scheme visits and monitoring of grants.
- Services to Business audits including audits of the Competency Development Programme and central Services to Business operations. The audits of the Competency Development Programme focused on compliance with tendering procedures when procuring trainers, monitoring of training, reviewing project and payment files, financial controls and contractor visits. The audits completed on central Services to Business operations focused on expenditure vouching, income reconciliations, management reporting and compliance with procurement procedures.

- Finance and Administration audits focused on financial management in the regions and covered areas such as debtors, creditors, income and allowance controls, SAP⁴³ control accounts and bank reconciliations.

Apart from the foregoing, audits were also carried out on Head Office functions and on the European Social Fund (ESF). Two Head Office audits were completed in 2006 covering

- Facilities Management Department – this department provides building, engineering and property facilities management services for the training centres, Employment Services offices, Head Office and Community Services. The audit reviewed the operational procedures of the department to ensure that it was operating in line with FÁS Financial Authority Levels and Purchasing Procedures. It also reviewed payment files and project cost reporting.
- Travel and Subsistence – the audit reviewed operational procedures, SAP financial controls and compliance with Department of Finance regulations regarding removal costs. It also examined a number of expense claims to ensure that daily checks and controls on claim forms were operating satisfactorily and that they were properly approved for payment.

In 2007 and 2008 four audits were completed in Head Office covering contracted training and external training accounts, procurement and the human resources/payroll system.

The audit of contracted training administration focused on the department's central role in the administration of the contracted training function. The department provides advice and support to the regions in the interpretation and application of the approved contracted training operating guidelines as well as maintaining central control in the allocation of contract numbers to the regions. It also works closely with the Head Office external training accounts department by providing the initial paperwork necessary for activating any new start-up contracts. The audit focused on the contracted training database, the associated administration files and the operation of external training accounts.

The audits of the Procurement Unit completed in 2007 and 2008 sought to determine if the procurement procedures as laid out in FÁS Financial Authority Levels and Purchasing Procedures were being adhered to. The audit reviewed a sample of request for purchase forms and goods received notes to ensure that they were completed correctly. It also selected a number of orders to confirm compliance with FÁS procedures in relation to quotes and tenders. A number of creditors payments, some supported by purchase orders and others by non-purchase orders, were also selected and traced through the creditors system to ensure that the payments made were supported by a properly approved supplier invoice.

The audit of the human resources/payroll system reviewed the implementation of the new system and sought to establish if the administrative and operational controls within Core⁴⁴ were operating satisfactorily.

The number of audits completed in each of the six business functions is presented in Figure D.3.

⁴³ IT accounting system.

⁴⁴ Human resources and payroll system.

Figure D.3 Breakdown by business function of audits completed by Internal Audit, 2002-2008

	2002	2003	2004	2005	2006	2007	2008
Community Services	13	15	8	13	8	7	4
Training Services	5	4	4	4	9	6	2
Employment Services	3	2	4	4	3	3	3
Services to Business	5	2	1	1	3	3	3
Finance and Administration	-	3	4	4	5	2	2
Head Office	-	-	4	-	2	3	1
ESF	2	3	-	-	-	-	-
Total	28	29	25	26	30	24	15

Special Reviews

Over the period 2006-2008, 19 special reviews were completed by Internal Audit. The reviews included the following

- Services to Business – there were four special reviews carried out in the Services to Business division. The reviews looked at Competency Development Training, control accounts, Strategic Initiatives and Alliances, the final write-off of uncollected levies due to central Services to Business operations and a compliance audit of the Construction Skills Certification Scheme/Safe Pass manual and the Spollen Report recommendations.
- Community Services – there were two reviews completed in the Community Services division. One was a review of a Community Training Centre’s audited accounts and the other involved a short review of current files and previous audit history to assist local management for a forthcoming Board meeting to discuss possible duplication of funding by a VEC and FÁS for a staff member in a Community Training Centre.
- Training Services – there was one special review carried out in the Training Services division. This was a review of the cost of materials for a course in one of the regions.

Three national exercises were also completed during the period – two in Community Services and one in Training Services. The reviews examined cases of false claims for childcare allowances, the closure of Community Employment bank accounts and high accruals on the Employment Support Scheme.

Investigations

In the period 2006-2008 Internal Audit completed 11 investigations⁴⁵ as follows

- An investigation dealt with procurement issues in the Corporate Affairs section.
- A further investigation dealt with finance and administration issues and looked at the management of cash receipts and debtors in one of the regions.

⁴⁵ Two further investigations were finalised in early 2009.

- An investigation related to the Services to Business division and it examined a trainer funded under the Competency Development Programme.
- An investigation carried out in the Training Services division dealt with the attendance of plastering apprentices at training in one of the regions.
- Seven investigations were completed in the Community Services division mainly focusing on the operation of financial and administrative controls in various community employment schemes.

Results of Internal Audit work

From mid-2006, Internal Audit provided an analysis of the opinions expressed in their audit reports. The opinions given by Internal Audit for the years 2007 and 2008 are presented in Figure D.4.

Figure D.4 Audit opinions expressed by Internal Audit, 2007-2008

Audit Opinions ^a	2007	2008
Satisfactory	60%	72%
Adequate	18%	12%
Unsatisfactory	22%	16%

Note a: A satisfactory audit opinion indicates minimal non-compliance with FÁS procedures, an adequate audit opinion denotes moderate non-compliance and an unsatisfactory audit opinion indicates substantial non-compliance with internal controls or procedures with no compensating controls to prevent error or irregularity.

External Audit by the Comptroller and Auditor General

The primary focus of the audit of the Comptroller and Auditor General is on the certification of the accounts of FÁS for each financial year in accordance with International Auditing Standards. This culminates in an opinion on the truth and fairness of the accounts.

Separately, the Comptroller and Auditor General may bring to attention through Special Reports to Dáil Éireann any significant matters arising out of audits that merit a public accountability.

In addition, issues that come to attention in the course of audits are reported to management by way of post audit communication.

Audit Opinions on FÁS accounts

In each of the years 2002-2008 a clear audit opinion was given on the accounts of FÁS. Clear opinions are given when the level of financial error detected does not exceed a predetermined materiality threshold. While, in particular functions, audits found that divergences had occurred in compliance with control procedures, based on sampling conducted under the Office's audit methodology⁴⁶ transactions reviewed were substantially correct and properly chargeable.

⁴⁶ This methodology has been validated for compliance with International Standards on Auditing.

Underpinning the audit was a risk-based programme of work drawn up after taking account of the activities undertaken in the course of the client's business. Coverage in each year of the audit areas is outlined in Figure D.5.

Figure D.5 Audit coverage by Office of the Comptroller and Auditor General, 2002-2008

Audit area	Average number of days used annually
Income and expenditure audit procedures	65.7
Balance sheet audit procedures	33.9
Legal and secretarial reviews	25.9
Audit planning	20.6
Audit administration	10.4
Reporting	2.9
Average number of days per audit	159.4

The average on-site annual resource committed over the period was one audit manager and three audit staff.

Special Reports

In addition to the issuing of opinions on the annual accounts, Special Reports are published from time to time drawing attention to matters which, while falling short of exceeding a materiality threshold, merit consideration by Dáil Éireann. In general, while the emphasis for certification of accounts is on annual transactions these examinations take a wider focus examining transactions over a number of years and focus more on management accounting and business operations. These reports may take account of the findings of Internal Audit as well as other work completed by staff of the Office. They incorporate the views of management and signal any remedial action taken by the agency or recommended as a result of the examination. Including this report, three special reports have been completed arising out of matters noted in the course of recent audits at FÁS.

- A Special Report published in May 2008⁴⁷ drew attention to procurement issues in FÁS. The report drew attention to the fact that internal FÁS procurement procedures were not observed by the Corporate Affairs division, there was a failure to achieve value for money in the way in which FÁS managed its relationship with its principal advertising agency and in the way it conducted business with contractors for major events. It also found that the development of a Jobs Ireland website, in the absence of a viable case for development and which was abandoned, meant that FÁS did not receive ongoing value for the resources committed. The report also noted that the absence of an IT strategy to focus the use of resources in this area also facilitated the misdirection of FÁS resources.
- Special Report 66 looked at the management of advertising and promotion by FÁS in the period 2002-2008. It examined the budgetary control over the related expenditure, the general strategy under which it was spent and the extent to which its effectiveness was evaluated. The examination also reviewed the procurement of advertising and related services.
- This report reviews governance and internal financial control within FÁS and the arrangements it has in place to govern its affairs. In particular, it examines the control FÁS exercises over the management of Head Office transactions and business expenses and

⁴⁷ A report by Internal Audit in FÁS formed the basis for this report.

certain other matters of financial management or governance that arose out of the financial audit of FÁS.

Management Letters

Management letters are a line of reporting to management on aspects of control and administration. The range of issues to which attention was drawn in post audit letters to the management of FÁS are set out in Figure D.6. The purpose of these letters is to point out shortcomings and make recommendations for improvement.

Figure D.6 Administrative areas dealt with in post audit management letters to FÁS, 2002-2008

Issues	2002	2003	2004	2005	2006	2007	2008 ^a
Fixed assets	●	●				●	
Debtors			●				
Creditors	●	●				●	
Procurement	●					●	
Banks and cash		●			●	●	
EU income			●				
Legal and secretarial					●	●	
Payroll					●		●
Travel and subsistence						●	
Other expenses paid to staff						●	
Risk management						●	
Payment processing and approval						●	●
Development grants							●

Note a: The management letter in 2008 also recommended that the sanction of the Department be sought for the retention by the former Director General of a car with which he was supplied as part of his contractual arrangements.

Audit Response to Shortcomings in Administration

Internal Audit

As indicated in Chapter 4, FÁS has reviewed its internal audit function and concluded that

- a co-sourcing model should be adopted with the Internal Audit resources increasing from nine to 12 staff – two audit staff (with the recruitment, internally if possible, of two audit staff to replace two staff that have left the unit) and one IT auditor. 15 audits should be outsourced annually
- financial audits should be completed on a three-year cycle.

It has also adopted recommendations arising out of the review for the improvement of the internal audit function.

External Audit

There is an understandable expectation gap about the assurance that financial audit with its emphasis on confirming the material accuracy of accounts provides.

In each year the accounts rendered by FÁS properly presented the transactions effected and because the level of error detected was below a pre-established materiality level a clear opinion was given.

However, as noted above, financial audit of the accounts was supplemented by an additional layer of reporting by way of Special Reports. The combination of the two is designed to provide cost-effective assurance on administration.

Overall, the Office ensured through comprehensive reporting of the public accountability implications of matters that were surfaced that the answerability of FÁS to Dáil Éireann in respect of regularity, probity and cost-effectiveness of its operations was discharged.

The Office operates a continuous improvement process in the course of which it uses feedback from audits and reporting work to improve its systems. In particular, in addition to its quality review procedure, any significant non-effective expenditure not detected by existing audit procedures is reviewed to determine whether adaptations are necessary. Based on a review of feedback from this and other audits the Office had decided that, with effect from the coming cycle of audits, the following adjustments will be part of its audit approach

- While a financial materiality threshold based on a percentage of total expenditure will continue to apply for planning purposes a separate financial materiality threshold of €100,000 will apply for purposes of reporting non-effective expenditure⁴⁸ noted in the course of audit. This will ensure that any significant expenditure noted in the course of audit for which value has not been received will be reported to Dáil Éireann.
- Because special considerations apply to the administration of public money, any matters noted in the course of audit that are considered material by nature or context will also be publicly reported.
- In order to supplement sampling based approaches the range of matters requiring specific review in the area of propriety has been expanded. All propriety matters have now been brought together in one comprehensive audit programme and the procedures necessary to conclude on their application by the State body have been specified. Figure D.7 outlines the matters included in the propriety audit programme and the overall audit objectives for each of these.

⁴⁸ This term covers expenditure for which full value has not been received.

Figure D.7 Propriety Audit Programme

Audit Area	Overall Audit Objective^a
Remuneration of the CEO	To ensure that the CEO's remuneration package conforms with the relevant authority.
Expense claims by the CEO and Senior Management	To gain assurance, through review and examination on a test basis, that CEO and senior management expenses are valid and appropriate. ^b
Entertainment expenses	To gain assurance, through review and examination on a test basis, that entertainment expenditure is valid and appropriate.
Directors fees	To ensure that Government guidelines in regard to Directors' fees have been complied with.
Foreign travel	To gain assurance, through review and examination on a test basis, that foreign travel is in accordance with the entity's policies and procedures, that the policies and procedures align with overall Government policy and that travel undertaken is valid and appropriate.
Credit cards	To establish whether an entity has appropriate policies and procedures in place governing the use of credit cards and to gain assurance, through review and examination on a test basis, that amounts charged to credit cards are valid and appropriate.
Perquisites	To identify and determine the appropriateness of payments (if any).
Transactions with related parties	To establish whether appropriate procedures have been adopted by the entity in relation to transactions with related parties and that any directors' transactions are properly disclosed in the accounts.
Procurement policy and procedures	To ensure that the entity has a properly designed procurement system in place which complies with law and public sector norms and to gain assurance, through review and examination on a test basis, that the system is operating as designed.
Capital expenditure	To gain assurance, through review and examination on a test basis, that the guidelines for the appraisal and management of capital expenditure proposals have been complied with for any major capital expenditure.
Asset disposal	To gain assurance, through review and examination on a test basis, that asset disposals complied with the procedures set out in the Code of Practice for the Governance of State Bodies.
Confirmations by entity regarding compliance with the Code of Practice for the Governance of State Bodies	To gain assurance, through conducting a limited examination of annual assertions which the body is required to make to the Minister, that key elements of the Code of Practice are being adhered to.
Board financial information	To establish, through review of the frequency, quality and accuracy of information being presented to it, whether the Board is provided with adequate financial information.
Tax compliance	To establish whether any issues concerning tax compliance have arisen.

Notes: a Detailed audit procedures are carried out in order to conclude on the overall audit objectives. Additional or revised tests have been introduced for some of the objectives.

b The term appropriate is concerned with whether an expense is appropriate to the entity and that there is an apparent business purpose for the expenditure. The term valid is concerned with whether an expense is internally authorised, accurate and properly supported with original documentation.

Appendix E Delivery of the Competency Development Programme

One objective in the Department's Statement of Strategy 2005-2007 was to ensure that the labour force is equipped with the necessary skills and knowledge to adapt to changes at enterprise level.⁴⁹ Its implementation would involve expanding the level of engagement and investment in in-company training that particularly targeted low skilled workers.⁵⁰ Training initiatives in this area would be developed and delivered by FÁS using European Social Fund and National Training Fund monies.

In 2008, FÁS spent €169 million on training for the employed. The training was delivered through a number of programmes. This Appendix examines the Competency Development Programme (CDP) which was the main programme administered by FÁS that sought to respond to the new emphasis on in-company development. The CDP accounted for €32 million (19%) of the 2008 expenditure. It is delivered by the FÁS Services to Business (STB) division.

The main focus of the examination was on the overall management of the CDP over the period 2005 to 2008.

Background to the Programme

The programme was a continuation of a smaller scheme which had come into being in 2003. In that year expenditure on the CDP was just over €2 million. The programme expanded significantly in 2005 as a result of the availability of increased EU funding.⁵¹ FÁS formed a cross-divisional group, chaired by a Director of the STB division, to identify the programmes and projects to which the increased funding, estimated at around €60 million over the period 2005-2008, should be allocated. In 2004, in a submission to the Department FÁS estimated that it could increase training activity to a level that could utilise the additional €60 million at the rate of €5 million each year from 2005 to 2008.

The CDP is steered by a sub-committee of the Board - the sub-committee for Training for the Employed established in March 2006. The terms of reference for the sub-committee are to

- monitor the outcomes of the CDP⁵²
- review FÁS policy in relation to the training of people at work and
- recommend policy changes or other initiatives where appropriate.

The sub-committee includes eight Board representatives and a number of FÁS staff representatives. It meets around five or six times annually.

The Department is finalising a value for money review of the CDP under the 2006-2008 round of reviews. This review will address the objectives, activities and outcomes of the programme.

⁴⁹ Pillar 2, Quality Work and Learning, Statement of Strategy 2005-2007, Department of Enterprise, Trade and Employment.

⁵⁰ A low skilled worker is one who has below level 5 on the National Framework of Qualifications. The Leaving Certificate is a level 5 qualification.

⁵¹ This funding was available under Measure 18 of the ESF co-funded Employment and Human Resources Development Operational Programme 2000-2006.

⁵² The CDP was referred to as the FÁS 'One Step Up' programme in the terms of reference.

Goals of the Programme

The FÁS Training Strategy (October 2005) placed the focus of the CDP on providing transferable skills to enable employees to progress to the next level of the NQAI framework⁵³ as recommended by the Enterprise Strategy Group.⁵⁴ It stated that FÁS intended that

- programmes would be developed and made widely available across all regions targeted at national, sectoral and regional labour market needs
- a specific component would address the needs of low skilled/low qualified workers
- the CDP would focus on priority needs – for example, workers in traditional industries and marketing.

In a submission to the Department in 2004, FÁS stated that it anticipated that it would apply the increased funding to the training of around 66,000 persons in the period between 2005 and 2008. Around half of the participants would be low skilled operative employees or workers in vulnerable industries or occupations.

Programme Design

FÁS does not deliver training directly under the CDP but facilitates its provision by independent training providers who must be listed on the National Register of Trainers.

National Register of Trainers

In 2004, FÁS and Enterprise Ireland jointly created a National Register of Trainers (NRT) in order to list qualified and approved training providers and the courses they are approved to deliver. All training providers that wish to deliver training for the schemes and programmes offered by FÁS must be listed on the NRT database.

Applications for inclusion on the register are assessed by the NRT Committee which comprises representatives from Enterprise Ireland, the Construction Industry Federation, the Irish Business Employers Confederation, the Irish Congress of Trade Unions, the Department of Education and Science and FÁS.

An approved trainer or training provider is placed on the NRT for a period of three years after which renewal may be sought. When an organisation is placed on the NRT, it may only provide the programmes it has been approved to deliver and may only use the services of the trainers that were named on its application form.

The NRT Committee does not monitor the activities of the training providers or tutors directly. This is the responsibility of the organisation funding a course or programme. The Committee should be notified if serious issues arise between FÁS and a training provider.

⁵³ National Qualifications Authority of Ireland (NQAI) – the awarding bodies are the Higher Education and Training Awards Council (HETAC), the Further Education and Training Awards Council (FETAC) and the Dublin Institute of Technology.

⁵⁴ Ahead of the Curve, Ireland's Place in the Global Economy, Enterprise Strategy Group, July 2004.

Procedures to guide FÁS staff in the procurement of training for the employed state that

- training should provide participants with portable and transferable skills
- some sectors are excluded from the programme⁵⁵
- some activities are excluded from the programme including specific training to meet company needs
- priority should be given to training offering accepted certification.

Training is delivered through two principal streams – a regional stream and a Strategic Initiative and Alliances (SIA) stream.

Regional Stream

With the exception of certain sectors, individual courses are procured from training providers by FÁS through its STB units in its regional offices.⁵⁶ The exceptions include courses procured by units in FÁS Head Office which deal with industrial sectors,⁵⁷ for example, the retail sector. Both are classified as part of the regional stream for the purposes of this report.

Internal FÁS procedures provided guidance in regard to identification of training needs for the training advisers procuring the training. Sources that may be used to identify labour market needs include, for example,

- consultation with the FÁS Research and Planning Department
- consultation with employer organisations, professional bodies and other representative groups and
- reviews of reports and commentaries concerned with labour market issues.⁵⁸

At the regional level, account appears to have been taken of a range of other factors, as well. For instance, in 2006, in a presentation to the sub-committee the manager for the Midlands region noted that training needs had been identified through, *inter alia*,

- skills shortages identified in reports – e.g. Ahead of the Curve and FÁS Labour Market surveys
- requests from companies and other feedback from visits to companies
- suggestions from training providers
- networking with other regions and specific requests from County Enterprise Boards, Chambers of Commerce and other bodies.

The decisions about the specific training activity to be provided within the budgetary constraints are made by the STB units within each region. A decision to procure a training course must be documented on a standard internal form that records how the training need was identified.

The processes from the identification of a training need by FÁS to payment of a training provider are set out in Annex E.1 to this appendix.

⁵⁵ For example, hotel and tourism sectoral training as this is provided by Fáilte Ireland.

⁵⁶ There are eight regions. The Dublin region is then further divided into three sub-regions.

⁵⁷ In 2008, around 5% of participants took part in training procured by the sectoral units.

⁵⁸ This would include reports such as that of the Enterprise Strategy Group – Ahead of the Curve – Ireland's Place in the Global Economy.

Strategic Initiatives and Alliances Stream

Under the Strategic Initiatives and Alliances (SIA) stream, training is delivered or sub-contracted by organisations that are contracted by FÁS to deliver a volume of training days over a number of course types following national tender competitions. The SIA initiative arose in 2005 from the work of a cross-divisional group. FÁS established a dedicated unit in its STB division in Head Office to manage training under the SIA stream.

In regard to the nature of the training to be provided under this stream, areas identified by FÁS in the advertisements seeking submissions from organisations included management development, entrepreneurship training, training for workers at risk of becoming unemployed and training in and for new technologies.

Sourcing Participants

In both streams FÁS provides funding to training providers for delivering training programmes to eligible participants.⁵⁹ FÁS does not source the individual participants on the courses. That is the responsibility of the training providers who do this, for example, through advertising courses or approaching employers to promote the benefits of the training on offer. FÁS requires training providers to acknowledge, in all their information documentation, the role of FÁS, the EU and the National Development Plan in supporting the CDP.

Audit Focus – Procuring the Training

The examination reviewed the procurement of training under both streams in order to ascertain whether

- the training was procured to meet an identified training need
- a competitive procurement process was used
- the trainers procured were registered on the NRT
- the training specification agreed was consistent with the identified need and
- contracts were agreed with the training providers.

Regional Stream

Under this stream, in most cases FÁS sources training providers. However, in some instances training providers sought approval to market a programme that they could deliver. FÁS stated that training sourced in this way would, nonetheless, need to meet the basic requirements for funding – the need for the training would have to be justified on the basis of addressing a skills shortage and the trainer would have to be registered with the NRT.

11 payments, with a total value of around €25,000, in respect of 34 courses that had been awarded in the regional stream, were examined.⁶⁰ All courses had signed contracts in place between FÁS and the training provider and recorded that the trainers were registered on the NRT.

⁵⁹ People in employment in the private sector, commercial state bodies and in the Engineering Departments of Local Authorities are eligible participants.

⁶⁰ Payments to training providers may include payment for more than one course.

For 29 of the courses, the training specification was consistent with the identified training need. However, some deficiencies were noted

- There was no form justifying the need for the training – identifying the skills shortage it was to address - for three of the courses. Two of those courses did not have the training specification, which training providers are required to submit at tender stage, on file.
- Five of the courses did not have any evidence of the procurement process – there was no evidence to show that a number of training providers had the opportunity to tender or that the training provider selected was the only one available on the NRT to deliver the required course.⁶¹

One further course was not the subject of a competitive procurement process. It was a pilot programme in regard to sales and marketing. The procedures provide that, where a training provider approaches FÁS with an innovative or original proposal, it can be considered a pilot programme and contracted for on a once-off basis.

The Internal Audit unit in FÁS carried out reviews of courses in five of the eight regions for the period 2005-2007. It found that there was no evidence that proper procurement procedures had been followed for 36 out of the 93 courses examined. In 2005, proper procurement procedures were not followed for over 80% of the courses procured. In 2006 and 2007, the level of non-compliance with procurement procedures had fallen to around 25%.

Strategic Initiatives and Alliances

Following open tender competitions, in September 2005 and June 2006, the Board approved proposals to award contracts to 16 organisations to provide 155,000⁶² days of training to around 19,000 employed people at a maximum cost to FÁS of around €21.2 million. These 16 organisations are referred to as strategic partners. The strategic partners approved by the Board in 2005 and 2006 are listed in Annex E.2 to this appendix.

The proposals put to the Board set out the nature of the training to be provided by each organisation. The individual courses provided by the organisations were agreed with the unit that manages the initiative in FÁS in advance of delivery.

The low skilled accounted for around 25% of the intended participants and FÁS would fully fund this training. The remaining projects were focused on SME management and on other priority needs that had been identified by the Enterprise Strategy Group or in needs studies for the sectors involved. These projects would be funded at the rate of 60% or 70%.

⁶¹ If there are two or more suitable training providers on the NRT, FÁS procedures require a competitive process to take place.

⁶² One organisation, which had proposed around 2,600 training days, did not ultimately agree a contract with FÁS.

While most strategic partners were funded for the delivery of specific courses, the funding provided to three organisations also had an element of development funding

- €186,000 for the Small Firms Association for a centre of excellence and web portal
- €3.6 million for the National College of Ireland (NCI) to develop and deliver two programmes - €1.4 million for a programme aimed at improving the ICT skills of low skilled workers and €2.2 million for a learning programme (KESP – Knowledge Economy Skills Passport) to target the key competencies⁶³ required by workers in the knowledge-based economy.
- €1.6 million to the Dublin Institute of Technology to design, develop and deliver a domestic sales training programme to 190 individuals over 3,040 training days.

Development Funding – National College of Ireland

The highest amount of development funding in the 2005/2006 round was €3.6 million approved for the National College of Ireland (NCI) to develop and pilot two programmes

- ‘Know IT’, a programme for basic ICT literacy and numeracy skills⁶⁴ to be developed and delivered to 1,750 participants at a cost of €1.4 million. As this training was aimed at low skilled workers it was 100% funded by FÁS
- KESP – Knowledge Economy Skills Passport, a programme aimed at developing the key competencies required by workers in the knowledge-based economy at a cost of €2.2 million to be delivered to 500 participants. FÁS funded the full cost of this programme due to its developmental and innovative nature.

The programmes were developed and delivered for the budgeted cost but not to the target numbers envisaged at the outset

- The ‘Know IT’ programme, which has a level 3 accreditation with FETAC, was delivered to 1,174 participants compared to the original target of 1,750. FÁS stated that it rejected the first version of the programme that was developed and this led to significant delays and increased cost. The participant numbers were reduced in order to keep expenditure within budget.
- The KESP programme, accredited at level 6 by HETAC, was delivered to 378 participants and not the 500 agreed at the start of the programme. FÁS stated that the number of programme hours in the developed programme was higher than what had been anticipated at the outset and this increase led to a reduction in the participant numbers.

FÁS has a standard clause in its contracts with the strategic partners stating that any intellectual property developed by the training provider pursuant to the terms of the agreement will be the sole property of FÁS. FÁS stated that, following discussions with the NCI, it has retained the intellectual property rights for the ‘Know IT’ and KESP programmes. The material for the ‘Know IT’ programme was transferred to FÁS in May 2009 and FÁS stated that it expected that the transfer of the KESP material would be completed by the end of 2009.

⁶³ Described as IT skills, science and technology skills, business skills and innovation/entrepreneurial skills.

⁶⁴ For example, email, basic word processing and spreadsheet skills and data management.

A further set of contracts was awarded following two tender competitions under the SIA initiative in 2007 (the 2007 round)

- In June 2007, the Board approved a proposal for management development training and upskilling of managers in SMEs under which six organisations would provide just over 35,000 days training to 8,200 participants at a maximum cost to FÁS of €10.1 million over an 18-month period. The training programmes were to be accredited by NQAI bodies.
- In September 2007, the Board approved a proposal for training for the low skilled and employees whose jobs or industries were under threat. There were two strands in the proposal. Under one strand, five organisations would provide around 22,000 days training to approximately 3,500 participants at a maximum cost to FÁS of just over €4.2 million. Under the second strand, €4.6 million was approved – ICTU (€3.9 million) and SIPTU⁶⁵ (almost €700,000) - to establish learning support structures for the low skilled.

The strategic partners approved by the Board in 2007 are listed in Annex E.3 to this appendix while further information on the learning support structure for the low skilled is set out in Annex E.4.

Types of Training in the SIA Stream

SIA initiative proposals put to the Board identified the categories of training that were to be provided by the strategic partners.

In 2005, the paper put to the Board noted that the proposed training fell into several broad categories including

- basic skills provision specifically targeted at low skilled employees
- occupational-specific upskilling for operative or technical staff in individual sectors (e.g. engineering, food, motor industry)
- functional or general management training for managers (including owner managers) in SMEs
- entrepreneurial development.

In June 2007, proposals approved by the Board for management and development training included a number of categories, for example, sales marketing management, personal effectiveness, production and operations management and international trade.

In September 2007, the headings under which the Board approved proposals for training for the low skilled and workers in vulnerable industries included ICT, basic skills for the workplace, health and safety and electrical systems maintenance skills.

While the Board approved broad categories under which the strategic partners would provide training, FÁS was required to identify the training need for each course proposed by a strategic partner and approve the course prior to delivery. The examination reviewed payments amounting to €152,000 in the SIA stream to ensure that

- the related training was procured to meet an identified training need and in a category identified in the proposals approved by the Board

⁶⁵ SIPTU also received funding under the first strand.

- a contract was in place between FÁS and the strategic partner
- the trainers used by the strategic partners were registered on the NRT and
- the training specification agreed was consistent with the identified need.

All files had signed contracts between FÁS and the strategic partner in place and all of the payments were in respect of training for which the training need was in a category approved by the Board and the training specification was consistent with the identified need.

Board members interest in the SIA

The Board of FÁS includes representatives from trade unions and employers. Concerns were raised that there may have been a conflict of interest for some of those representatives when the Board was considering funding for the SIA.

At a Board meeting in September 2005, the proposals for funding approved by the Board included proposals from the Irish Congress of Trade Unions (ICTU) and the Small Firms Association (SFA) which is a part of the Irish Business and Employers Confederation (IBEC). The meeting was attended by all five employer representatives including the Chairman and all four union representatives. The minutes record that the Chairman informed the meeting that, as IBEC was one of the major beneficiaries under the proposals, he wished to absent himself from the discussions in order to avoid any actual or potential conflict of interest. Another Board member, a Trade Union representative, also absented himself during the discussion.

In June 2007, the Board considered funding for management development training. One of the proposals was from the SFA. All four employers representatives were present. The Board minutes do not record that any person absented themselves from the discussion on the proposals.

In September 2007, the Board considered proposals to fund training for the low skilled and workers in vulnerable industries. Proposals from ICTU and SIPTU were included. The Chairman noted that the item had been deferred from the previous Board meeting in July to allow the Executive to engage with the FÁS legal advisers about an issue they had raised about possible conflicts of interest under the Code of Practice for the Governance of State Bodies. The Chairman stated that essentially the advice received was that it would be best, in relation to this particular item, if any Board member who, it might be argued, had a direct involvement with the organisations who had submitted the applications should not participate in any Board discussion or decision on the item. The Chairman stated that he had agreed to accept the legal advice and, accordingly, four members including himself had not received the Board papers relating to the item. Three of those who did not receive the papers were present at the meeting and agreed to withdraw from the discussions. One of these pointed out that, while he had agreed to withdraw from the discussion of the item, he had no material interest in the proposals and strongly believed that he had a legitimate role to play in all considerations by the Board of these and any other similar proposals.

Programme Cost

Expenditure on the CDP increased from €2 million in 2003 to just over €12 million in 2005. By 2007, it had risen to €45 million. Total expenditure on CDP for the period 2003 to 2008 amounted to just over €126 million as set out in Figure E.1.

Figure E.1 Competency Development Programme Expenditure, 2003 to 2008

	2003	2004	2005	2006	2007	2008	Total
	€000	€000	€000	€000	€000	€000	€000
Training Providers	1,002	2,711	11,427	27,327	41,325	30,865	114,657
Direct Programme Costs	1,053	991	95	52	1,003	464	3,658
Communications and Information Technology ^a	23	10	911	3,504	1,213	455	6,116
Programme Development	-	-	39	310	1,115	411	1,875
Total	2,078	3,712	12,472	31,193	44,656	32,195	126,306

Source: FÁS

Note a: This includes advertising and promotion costs which amounted to €5.5 million in the period 2005 to 2008. Advertising expenditure for the CDP was examined in Special Report 66, Comptroller and Auditor General, June 2009.

Financial Administration of the Programme

In the period 2003 to 2008, around €15 million was paid to training providers which accounted for just over 90% of the expenditure in that period. Around €17 million was paid under the SIA initiative with the balance paid under the regional stream.

This funding was, generally, provided as a percentage of the cost per participant per training day on courses provided by the training providers. The rate at which most of the funding was provided ranged from 50%⁶⁶ to 100% of the cost. The rate depended on a number of factors including whether the participants were low skilled employees and whether the course was certified. FÁS records indicate that around €16 million was provided in respect of training delivered outside working hours.

Strategic Initiatives and Alliances

The proposals put to the Board set out the maximum number of training days to be provided by each strategic partner and a maximum level of funding to be made available by FÁS. Rates of funding ranged from 50% to 100% depending on whether courses were directed at the low skilled and whether they were certified. For example,

- under all rounds, training for the low skilled was fully funded
- under the 2007 round, management training on certified courses received 70% funding while uncertified courses were funded at a rate of 50%.

⁶⁶ Certain training for employees of larger organisations (i.e. with more than 250 employees) received funding of 35% for a certified course and 25% for an uncertified course.

A sample of payments in the SIA stream were examined to determine whether

- there was evidence of the number of participants on a course
- the payments made were in accordance with the contracts
- the rate of funding provided was the correct rate.

In all instances, there was evidence of the number of participants and the payments made were at the correct rate and in accordance with the contract.

Daily Funding Rate - SIA

The daily funding rate for each participant for training provided by a strategic partner under the SIA is calculated on the basis of the mix of courses proposed in the project plan at the time the contracts are agreed. The same rate is then applied to all courses provided by that strategic partner.

For example, in the 2007 round the highest value proposal approved by the Board was €4 million for Chambers Ireland.

As part of its tender submission, Chambers Ireland included a schedule listing a range of different programmes covering various topics and of varying duration and a proposed cost of €30 per participant per training day based on an average number of seven participants per course. If this cost per training day had been accepted by FÁS it would have provided funding at a rate of around €40 (70%) for participants on certified courses and €15 (50%) for participants on uncertified courses.

Following negotiations, FÁS agreed a daily funding rate for participants of €40 for certified courses and €20 for uncertified courses – based on an overall cost of around €80 per day. Chambers Ireland submitted a revised project plan to FÁS, covering the first three months of the contract, outlining the programmes to be provided and the planned number of participants per programme which ranged between 5 and 21.

The examination reviewed payments of almost €156,000 to Chambers Ireland in November 2007. The rates paid were all in accordance with the contract.

The contracts with the SIA organisations provided for advance payment to the strategic partners. FÁS stated that the advance funding was provided at the start of the project as a means of offsetting establishment costs and the delay between submission of claims by the strategic partners and processing of payments by FÁS. The advances were then recouped by deductions from invoices submitted on foot of completed training.

€4.7 million was advanced to the strategic partners approved in 2005 and 2006. The advances amounted to over 20% of the total amount (€1.2 million) approved by the Board for the strategic partners in those years. All of the advances were recouped in full by FÁS by the end of September 2007.

Under the 2007 round approximately €2.6 million was advanced to the strategic partners on foot of contracts whose total value was €8.1 million. By the end of July 2009, €1.5 million (58%) of these advances had been repaid. The Director General of FÁS stated that the remaining advances continue to be recouped and by the end of 2009 FÁS anticipates that the balance outstanding will be less than €900,000. He also stated that in the case of any balances likely to be outstanding at

the end of individual contracts FÁS is working proactively with the relevant parties to ensure an orderly conclusion.

In 2009, arising from the overall budgetary constraints and on the instruction of the Department, FÁS approached the strategic partners with a view to reducing the rates it was paying under the contracts for training days for those parts of the contracts yet to be delivered. Following negotiations FÁS reached agreement for reductions in the rates of between 8% and 10%.

Regional Stream

Funding for courses procured under the regional stream is agreed with the providers on a course-by-course basis. The daily funding rate for each participant takes account of the number of participants and other costs including tutor's fees and overheads including premises and advertising. Claims for payment by training providers are required to be accompanied by evidence of the number of participants on the related course.

The 34 courses reviewed in the regional stream were examined to determine whether

- the payments made were in accordance with the contracts
- the rate of funding provided was the correct rate for the course type as set out in the internal procedures
- there was evidence of the number of participants on a course.

The examination found that all payments were as set out in the contracts and the rates of funding were in accordance with that specified for the course types. However, there was no evidence on file for one of the courses to confirm the number of participants. This was in respect of a course in Site Management certified by the UK Chartered Institute of Building. A payment of €2,500 was made in respect of this course and the rate of funding was 70%.

Some of the organisations that provided training under the SIA also provided training under the regional stream. In 2007

- around €2 million was paid to IBEC, €1 million for training provided under each stream and
- around €2.9 million was paid to the IMI of which around €1.9 million was for training provided under the regional stream.

In February 2007, FÁS wrote to four organisations seeking tenders for Management Development Programmes to be delivered in the regional stream. The value of the contracts to be awarded was not specified. The tenders were assessed in May 2007. All four organisations⁶⁷ received more than the minimum marks that had been set for qualifying to be awarded contracts. The tender analysis sheet noted that all four had been approved and that contracts to the value of €250,000 to €750,000 in total for each training provider could be awarded. The procurement procedures require that contract fees in excess of €200,000 require Board approval. However, Board approval was not sought for any of the contracts awarded. Individual contracts were awarded for each course provided arising from the tender competition. Seven contracts awarded following the competition were reviewed and the highest value was a contract for €73,000.

A sample of 12 payments, with a total value of €413,000 made to IBEC and the IMI in 2007 was reviewed. Ten of the payments, amounting to around €325,000, were in respect of courses that

⁶⁷ IBEC, IMI, National College of Ireland and Professional Development Ltd.

were awarded in 2006 and early 2007 prior to the tender competition. No competitive procurement process was held before these contracts were awarded.

A further sample of eight payments to the value of €364,000 made to IBEC and the IMI in 2008 were reviewed. All of the related contracts had been awarded on foot of either the 2007 tender competition or a further tender competition held in 2008.

FÁS procedures provide that a quarterly report should be provided to the Board of any contracts won by a training company where the fees earned by the company on an annual basis exceeds €1.1 million. No such reports in respect of the fees paid to IMI or IBEC in 2007 was provided to the Board.

Programme Output

In the period from 2005 to 2007

- Around 73,000 participants were trained under the regional stream. The total number of training days for 2005 and 2006 was not available while in 2007 around 256,000 training days were provided.
- Around 49,000 training days had been delivered under the SIA to just under 9,000 participants under the proposals approved in 2005 and 2006. The number of days provided by one organisation was not specified. Excluding this organisation, the training days delivered were around 63,000 less than the number contracted.
- The three projects for which development funding had been provided had been completed.

In 2008, the first year for which the information for both streams was recorded on a CDP management information system developed by FÁS in 2007, almost 206,000 days training were delivered across a range of programme types to almost 23,700 participants. Details are set out in Figure E.2.

Figure E.2 Training by type, 2008

Programme Type^a	Number of Days	% of days	Number of Participants
IT Programmes	34,535	16.8%	4,230
Production/Manufacturing/Construction	26,462	12.9%	2,392
Leadership/Personal Development/Administration	21,020	10.2%	1,829
Health and Safety	16,459	8.0%	2,257
Management Development	15,447	7.5%	1,744
Retail Services	14,308	7.0%	739
HR/Coaching/Training	12,227	5.9%	1,954
Childcare	12,154	5.9%	514
Transport/Logistics	10,580	5.1%	546
Healthcare/Care Programme	9,597	4.7%	627
Finance	9,223	4.5%	1,124
Workers in vulnerable employment ^b	6,032	2.9%	1,060
SME Development	4,963	2.4%	1,827
Contract Cleaning	4,879	2.4%	1,615
Low Skilled ^b	3,329	1.6%	530
Sales Marketing	2,136	1.0%	278
Self Employment/Enterprise	1,684	0.8%	209
Sales	755	0.4%	206
Total	205,790	100%	23,681

Source: FÁS

Notes: a: FÁS classified the training programmes.

b: Some categories classify those receiving the training and not its nature.

The regional stream accounted for 94% of the training days delivered and 87% of the participants trained.

The average duration of a programme was just under 9 days, ranging from around three days for courses in relation to contract cleaning to 23 days for courses in childcare.

Monitoring, Performance and Evaluation

In order to gain assurance that training provided under the CDP is achieving its goals, activity should be monitored, performance measured and achievements compared with the objectives of the programme.

Programme Monitoring

Effective monitoring of the delivery of training is important to assure FÁS and the State that course targets are being met and standards achieved. FÁS has different procedures in place for monitoring the regional and SIA streams.

Regional Stream

Among the internal FÁS procedures for managing training programmes procured under the regional stream is a requirement to carry out monitoring visits to each training course. The procedures recommend that one visit should be made to courses of 10 days or less duration and two visits should be made for longer courses. The visit is evidenced by the completion of a monitoring report on a standard internal form that records, *inter alia*,

- the number of participants registered for the course, the numbers present at the time of the visit and the number of companies represented
- whether the trainer is registered on the NRT for the subject matter of the course and whether the standard of training appears to be at an acceptable level
- whether the programme content and duration are in accordance with the course specification and
- whether the testing and assessment system required for certification is in place.

Around half of 115 courses on the regional stream reviewed by the examination team or the Internal Audit unit in FÁS showed no evidence of a monitoring visit having been carried out.

Previous issues with monitoring

The importance of effective monitoring of programmes delivered by independent training providers had been highlighted some years earlier. In 2003, arising from allegations about courses that were funded by FÁS for the Safe Pass and Construction Skills Certification Schemes, an Internal Audit investigation was carried out. This highlighted instances where courses had not been presented by the tutors named as having done so by the training provider, where trainers who delivered courses were not approved and, also, claims for participants who had not attended courses. Arising from the investigation, a further review of the issues identified was conducted by an external consultant.

The external consultant made seven main recommendations and 30 supplementary recommendations. The Board was notified about progress in implementing the recommendations in November 2004 under seven main headings. These included trainer registration, procedures manuals for the schemes, assessment of trainers, clarification of the roles of those involved in the schemes, monitoring of programmes and issues relating to individual trainers and training providers. In 2005, Internal Audit reviewed the implementation of the recommendations. Its report, in January 2006, noted that the recommendations had been implemented satisfactorily with the exception of the introduction of trainer packs for the Construction Skills Certification Scheme and monitoring arrangements for both schemes. These recommendations were subsequently implemented.

In 2008, an investigation was carried out by the Internal Audit Unit following an allegation of false claims by a training company in the Midlands region.

Internal Audit Investigation – Competency Development Programme

In March 2008, FÁS commenced an investigation following receipt of an allegation that false claims had been made by a company in the Midlands region that delivered training under the CDP.

The investigation found that

- On 21 occasions, staff and former staff of the training company recorded as having participated in courses for which funding was provided had not done so. The investigation concluded that the excess claims paid by FÁS amounted to almost €7,400.
- Certain courses run by the training company entitled the participants to certificates from a certifying body. The cost of each certificate to the training company is €90. This is part funded (73%) by FÁS. The investigation found that 243 participants had been listed as having been certified. However, most of these had not been registered with the certifying body but had instead been issued with certificates printed by the training company. FÁS raised the matter with the training company and by September 2008, all but 58 of the participants had been registered with the certifying body.
- In March 2008, the training company was approved on the NRT to deliver 134 programmes with approved tutors assigned to each. In the case of non-FETAC approved programmes, trainers must only deliver courses using the tutors that are on the NRT. The investigation found that, in 2007, the training company had run and claimed for 131 courses and that of the 25 tutors used for delivering those courses just one trainer who delivered four courses was registered with the NRT. The investigation noted that the value of training delivered using non-registered trainers was around €412,000.

Strategic Initiatives and Alliances

The SIA unit comprises five staff including a manager, three assistant managers and a clerical officer. Each of the assistant managers is assigned responsibility for managing FÁS's relationship with a number of strategic partners.

When the Board approved the initial round of contracts for the SIA stream in 2005, it noted that the STB division would have responsibility for monitoring projects. Key criteria identified by the Board included

- whether expenditure was in accordance with contracts
- whether the training was delivered efficiently
- the education and training attainments of participants prior to the training and
- whether the training has been effective in achieving the increases in skills and abilities intended.

The contracts with the strategic partners provided for a project plan to be attached indicating the nature and volume of training to be provided. While these were in place for some contracts, FÁS pointed out that demand for individual courses provided by the strategic partners was a determining factor in respect of the training courses provided and that, while the overall project plans provided a general outline of what was planned, the detail about the individual courses to be provided was agreed at regular meetings between FÁS and each strategic partner and these were incorporated into monthly plans.

All documentation relating to the programmes provided is held by the strategic partner. This includes registration forms, attendance sheets and evaluation forms. Periodically, FÁS carries out

spot checks on this documentation and any discrepancies must be resolved prior to approving payment. For example, in January 2009 the supporting documentation was sought in respect of a claim for payment of €2,000. A number of discrepancies were identified by FÁS, all of which were resolved except for verification of attendance for a small number of participants. As these issues could not be explained satisfactorily by the strategic partner approximately €1,300 of this claim was withheld by FÁS. The examination found that for six courses reviewed the strategic partners provided all the necessary supporting documentation.

The examination found that while one of the controls in place is the carrying out of random monitoring visits to training providers these had not occurred on any of the courses reviewed. FÁS stated that these random visits do not occur as frequently as would be preferred. However,

- FÁS liaises regularly with the strategic partners including holding project planning and review meetings
- the strategic partners submit summary participant details with all invoices submitted for payment and
- FÁS makes periodic spot checks of other supporting documentation held by the strategic partners.

In regard to the efficiency of training, the initial check is on the information submitted by the strategic partners. FÁS may then seek additional information. In general, the examination found that the focus has been on ensuring that training took place and that, while FÁS meets regularly with each of the strategic partners to discuss the ongoing programme and any issues that have arisen no substantial monitoring, for example, through systematic examination of participant evaluation forms, has taken place.

The Board identified the education and training attainments of participants prior to receiving training as a criterion for evaluating SIA projects. While FÁS records the educational attainments of participants under the SIA, the format in which the data is maintained does not lend itself to analysis.

Measuring Performance

The FÁS Statement of Strategy stated that business plans would set out the measurable contribution that each unit or division would make to the achievement of the high priority goals.

In 2007 when expenditure on the CDP, at €45 million, was the highest in the period under review, the business plan for the STB division included the following key performance indicators (KPIs) for CDP

- training of 27,000 participants
- expansion of CDP activity to €39 million
- the carrying out of a client survey to establish feedback and validation
- the achievement of 90% certification on supported training
- the provision of 25% of the training for low skilled employees (NQAI levels 1 to 4)
- 30% of the training to be carried out in the BMW region.

Progress against these KPIs was not reported. There was a year-end review of the Business Plan and a report was produced by the STB division. This noted that a record spend had been achieved on CDP but no information was given as to the progress made in reaching the specific targets set regarding the numbers to be trained, the percentage of certified training courses, the percentage of

training provided to low skilled employees or the percentage of training carried out in the BMW region.

Because of the lack of reported outcomes, the examination sought information from the Central Administration Unit in STB on the targets set in the 2007 Business Plan.

In regard to some of the KPIs, the information provided for 2007 showed that

- over 45,000 people received CDP training
- around 93% of the 35,381 participants in the regional stream were on courses that could have resulted in certification. This included certification other than certification under the NQAI framework. No details of certification levels for the SIA stream were available
- the proportion of those trained in the BMW region was 18% against the target of 30%. Again, this information was for the regional stream only
- no information was available for the proportion of those trained who were low skilled as this information is not captured on the system.

The Assistant Director General with responsibility for CDP stated that FÁS's overall aim in regard to the CDP was to achieve the level of activity necessary to expend the funds available.

Evaluation of Training

FÁS does not have formal processes in place to evaluate the extent to which training provided under the CDP achieves its objectives of

- enabling employees to progress to the next level of the NQAI framework
- focusing on low skilled workers or low qualified workers
- providing training participants with portable skills and
- focusing on priority needs in the labour market.

FÁS stated that its management information systems were not sufficiently well developed prior to 2007 to capture detailed information centrally about individuals trained. In 2007, it developed a database – CDP management information system – to centrally record information about training provided under the CDP. Prior to that, statistics about the training provided were collated by the regional offices or units in Head Office with responsibility for the training.

Enabling employees to advance on the NQAI framework

Certification provides evidence about whether training has been successful in increasing participants' levels of qualifications or skills. The ultimate test in this regard is whether the participant gets certification at the end of the course.

FÁS does not have a record of whether or not those who participated in certified courses achieved certification. It stated that the emphasis in managing the CDP has been on endeavouring to ensure that courses are certified and that, while the courses are monitored for attendance, data on whether the participants achieved certification is not yet available. FÁS stated that it is conducting an exercise to identify participant outcomes on certified CDP courses for 2009.

In the absence of information on the extent of certification of participants, the only available alternative indicator is the extent of participation on courses that are certified. In 2008, the CDP

management information system recorded that 21,121 or 89% of participants were trained on certified courses and 2,560 (11%) were trained on non-certified courses.⁶⁸

Of the 21,121 who were trained on certified courses

- 16,108 took part in courses that were certified by awarding bodies affiliated to the National Qualifications Authority of Ireland⁶⁹ or by bodies aligned⁷⁰ with the NQAI framework and
- 5,013 were trained on courses that were certified by other bodies.

Courses that are on the NQAI framework of qualifications are classified from levels one to ten. Courses that are certified by bodies that are not affiliated or aligned to the NQAI cannot be classified on its framework. Accordingly, the NQAI level of courses undertaken can only be determined for around 76% of those who participated in certified courses. The levels of the courses certified by bodies affiliated to the NQAI or aligned with the NQAI framework are set out in Figure E.3.

⁶⁸ A number of courses of short duration, in particular some courses delivered under the SIA, are not certified.

⁶⁹ The awarding bodies of the NQAI are HETAC, FETAC, Dublin Institute of Technology, other Institutes of Technology for certain courses outside the HETAC and FETAC frameworks, the State Examinations Commission and the Universities.

⁷⁰ In 2006, the National Qualifications Authority of Ireland agreed a policy for the alignment of the qualifications of UK education and training awarding bodies (delivered in Ireland) with the NQAI Framework. For example, the European Computer Driving Licence (ECDL) is aligned with level 4 on the NQAI framework.

Figure E.3 Training – NQAI framework, participants in courses, 2008

Programme Type	National Qualifications Authority of Ireland Framework Levels				Number of participants
	1 and 2	3 and 4	5 and 6	7 to 10	
IT Programmes	40	2,685	619	63	3,407
Production/Manufacturing/ Construction	9	242	1,306	224	1,781
Leadership/Personal Development/ Administration	18	271	383	126	798
Health and Safety	17	419	1,041	128	1,605
Management Development	-	49	755	176	980
Retail Services	9	146	234	69	458
HR/Coaching/Training	30	17	754	213	1,014
Childcare	-	33	383	-	416
Transport/Logistics	28	46	371	46	491
Healthcare/Care Programme	-	49	431	-	480
Finance	6	52	414	79	551
Workers in vulnerable employment	1	829	206	-	1,036
SME Development	-	36	550	27	613
Contract Cleaning	1,602	22	-	-	1,624
Low Skilled	32	424	69	-	525
Sales Marketing	-	10	56	41	107
Self Employment/Enterprise	-	8	120	-	128
Sales	9	21	51	13	94
Total	1,801	5,359	7,743	1,205	16,108

Source: Analysis carried out by FÁS

In order to conclude about whether training has increased participants' levels of educational attainment as referenced on the NQAI's framework of qualifications it would be necessary as well as capturing the extent of actual certification to know what the level of achievement was prior to the training. The management information system records information about participants' levels of educational attainment prior to training. Prior to 2008, the information was not recorded. The available data about the educational attainments of participants in 2008 prior to training is set out in Figure E.4.

Figure E.4 Educational attainment of participants prior to training as recorded by FÁS, 2008

Level on NQAI Framework	Participants	% of participants
Levels 1 to 4	4,420	25%
Level 5	5,677	32%
Third Level	7,496	43%
Total^a	17,593	100%

Source : FÁS

Note a: Of the remaining 6,088 participants that took part in training in 2008 data was not recorded for 3,718 participants and 2,370 participants had qualifications which could not be classified on the NQAI framework.

Based on the foregoing, a considerable portion of the training provided that is certified on the NQAI framework may not enable individuals to move to a higher level on that framework. One possible explanation is that their need for training may not necessarily be related to their prior level of achievement but, rather, their lack of a particular skill. Consequently, the training might be at a lower level than that achieved by the individual, perhaps in a different discipline, prior to the training.

Training for the Low Skilled

Of those cases where educational attainment prior to training was recorded, 25% of those trained could be classified as low skilled.⁷¹

A considerable proportion of participants appear to have taken part in courses aimed at the lower skilled even in cases where their educational attainment prior to training was categorised as higher. Based on those instances where data was captured and assuming a reasonable overlap between the relevant populations, 43% of those that took part in courses certified by awarding bodies of the NQAI were placed on courses that were pitched at levels 1 to 4 while around 25% of those trained could be classified as low skilled prior to training.

Portable Skills

In regard to the goal of providing participants with portable or transferable skills, many of the courses funded under the CDP provide training that might be regarded as non employer-specific e.g. IT programmes, personal and management development courses and training in respect of Finance and Human Resources. This training can provide the individuals trained with skills that can be brought to employment in different sectors of the economy. On the other hand, some training is more likely to be industry or employer specific - for example, training in areas such as childcare, transport/logistics or cleaning.

Addressing Priority Needs in the Labour Market

Over 90% of the training in 2008 was provided in the regional stream. It is a requirement under the FÁS procedures that this training should be procured on the basis of skills gaps identified by FÁS. The examination found that

- all but three of the 34 courses in the regional stream reviewed had some evidence of the identified need for the training

⁷¹ Levels 1 to 4 on the National Framework of Qualifications.

- some training was procured on the basis of training providers approaching FÁS seeking approval to market a programme that they could deliver rather than in response to a call from FÁS for training to meet an identified need.

While the latter may be a practical way of procuring training, there is a risk that a training provider, in seeking to market its services in the categories of training it provides, will have different goals and priorities from those of FÁS which should be procuring training on the basis of the overall requirements in the labour market. The Department noted that this risk requires careful management by FÁS to ensure that all training provided is consistent with the strategic intent and that no unwarranted bias is afforded to any single training provider.

Wide Availability of Training

A further goal of the CDP was that training should be available across all regions. The data for the dispersion of training across the regions is available for 2008 only. Figure E.5 shows the regional spread for participants in that year.

Figure E.5 Participants by region, 2008

Region	Participants	% of participants
Dublin - South	2,078	
Dublin – City Centre	1,735	
Dublin - Fingal	<u>1,549</u>	5,362
South West		4,299
South East		2,473
North-West		1,870
Midlands		1,679
Western		1,457
North-East		1,198
Mid-West		1,078
Head Office ^a		4,265
Total	23,681	100%

Source: FÁS

Note a: Head Office includes the participants on the SIA programmes and those procured by the sectoral units. Around 18% of the training was procured by FÁS Head Office in the SIA stream or by the sectoral units. The region in which the participants received their training is not recorded.

Oversight by the Board

The Board sub-committee on Training for the Employed was established in March 2006. Its membership comprises eight Board representatives and a number of FÁS staff representatives. Other staff members attend as required. The sub-committee met eight times during 2007 and on five occasions in 2008. It reports periodically to the Board of FÁS. In July 2009, the sub-committee issued a progress report to the Board. In relation to the CDP, the sub-committee noted that it had

- discussed the guidelines for funding under the CDP and a change in focus to training for the low skilled and management training for employees of SMEs
- reviewed progress on a number of programmes under the SIA initiative and
- received updates from some of the regions.

In September 2009, in response to a request from the Board for a paper that would more adequately reflect the range of work undertaken by the sub-committee in 2008, a revised progress report was presented. This report noted, *inter alia*, that

- Guidelines for CDP had been refined and the focus of CDP expenditure shifted towards the lower skilled workers. The CDP budget and activity had been monitored during the year.
- The sub-committee had paid particular attention to the SIA initiative and had been briefed throughout the year on progress relating to achieving targets. The focus had narrowed down to two major initiatives in 2008 – low skilled workers and managers of SMEs.
- The sub-committee had recommended that the ICT programmes developed by the National College of Ireland be mainstreamed.

Department Oversight

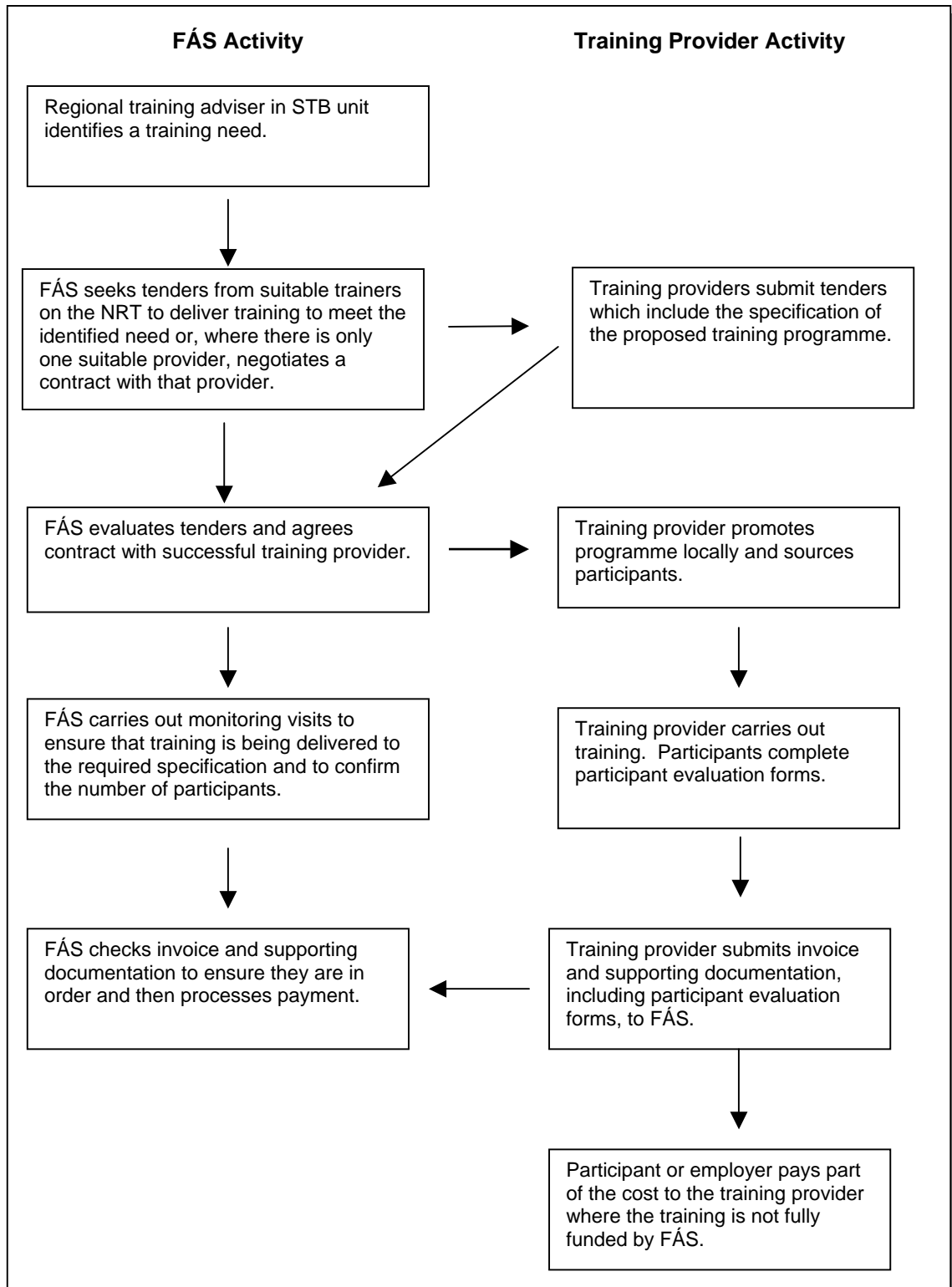
The Department has a strategic objective of ensuring that the labour force is equipped with the necessary skills and knowledge to adapt to changes at the enterprise level and, as part of its response to this, it provides FÁS with funding for training for the employed. Under the National Skills Strategy (2007) the Department also promotes the development of human capital and lifelong learning.

The Department stated that the decision to increase the level of funding to FÁS for CDP purposes followed a process of careful consideration of a number of options over several years by various stakeholders, including the European Commission and the Employment and Human Resources Development Operational Programme Monitoring Committee.

In 2004, when making its submission in regard to the expansion of its programmes for Training for the Employed, FÁS noted that it anticipated providing training for around 66,000 people for the additional €60 million that was being provided over the 2005-2008 period and it identified the broad headings under which training would be provided.

The Department pointed out that it set target levels of training to be provided annually and the priorities to which they are attached in the context of the annual estimates process and, from 2007, in the Department's annual Output Statement. The Department added that progress against these targets is monitored by way of monthly meetings with the FÁS management team.

Annex E.1 Competency Development Programme – Regional Stream Process



Annex E.2 Strategic Partners Approved by the Board 2005-2006

Organisation	Amount Approved €	Participants to be trained	Training Days to be delivered
Irish Engineering Enterprises Federation ^a	601,920	823	2,625
The Chamber of Commerce of Ireland	2,675,750	4,000	6,000
Irish Congress of Trade Unions	1,802,493	1,700	10,115
The Society of the Irish Motor Industry	355,173	276	2,676
Small Firms Association	1,246,000	1,000	3,000
Dorset College	282,276	675	3,450
Irish Management Institute	288,749	60	600
Irish Computer Society	4,655,000	3,420	39,250
The National College of Ireland	3,600,000	2,250	11,250
Líonra – The Regional Higher Education Network	825,411	433	43,300
Irish Small and Medium Enterprises Association Ltd	1,054,270	2,868	3,612
Meitheal Forbartha na Gaeltachta Teo	786,754	840	8,480
Muintearas na nOileán Teoranta	670,572	205	14,100
European Automotive Academy Limited	208,800	90	1,060
National Learning Network	252,000	120	2,400
Dublin Institute of Technology	1,876,620	190	3,040
Total	21,181,788	18,950	154,958

Source: FÁS

Note a: This training was not delivered as a contract was not agreed with this organisation.

Annex E.3 Strategic Partners Approved by the Board in 2007

Organisation	Amount approved €	Participants to be trained	Training Days to be delivered
Management Development Training			
Chambers Ireland	4,000,000	4,300	12,500
Irish Management Institute	2,317,000	414	7,148
Small Firms Association	1,229,000	2,400	4,080
Irish Small and Medium Enterprises	1,028,000	704	3,080
National College of Ireland	950,000	288	6,912
Optimum Results	606,000	90	1,440
	10,130,000	8,196	35,160
Low-skilled/vulnerable workers			
<i>Training Interventions</i>			
Belfast Unemployed Resource Centre (BURC)	1,229,000	900	7,100
SIPTU/IDEAS Institute ⁷²	1,475,588	1,490	7,680
National Learning Network	197,500	120	1,200
Technical Engineering and Electrical Union (TEEU)/ Education, Training and Organisational Services (ETOS)	976,699	760	5,140
Career Decisions Ltd	374,200	200	750
	4,252,987	3,470	21,870
<i>Learning Support Structure</i>			
Irish Congress of Trade Unions	3,898,931		
SIPTU/IDEAS Institute	<u>684,000</u>		
	4,582,931	-	-
Total approved by Board	18,965,918	11,666	57,030

Source: FÁS

⁷² The Institute for the Development of Employee Advancement Services (IDEAS) was established in 2001 by SIPTU to deliver training and facilitation in both the public and private sectors.

Annex E.4 Learning Support Structure

Part of a proposal approved by the Board in September 2007 included funding for the establishment of a learning support structure within ICTU and SIPTU. The idea for this structure came from the Government's Ten Year Framework Social Partnership Agreement 2006-2015 (Towards 2016).

Towards 2016 recognised the need to examine the availability of workplace learning (including in relation to basic skills) and upskilling of lower skilled and vulnerable workers and proposed the development of a targeted guidance, learning and training programme to include coaching and mentoring for workers in vulnerable employments where appropriate. It stated that increased financial support would be made available for the existing pilot trade union-led learning network under the FÁS One Step Up Programme which engaged trade union representatives in the workplace as part of the learning activation process, particularly among the lower skilled, to pursue education and training.

In response to an invitation to tender issued by FÁS, ICTU and SIPTU submitted proposals.

ICTU proposed the development of a Trade Union Learning Institute Project to facilitate and promote workforce education and training. This involved the appointment of a Programme Director and eight regional learning co-ordinators who would in turn recruit and train 480 Union Learning Advocates whose role would be to act as peer catalysts for fellow workers to engage in learning. The estimated cost to FÁS of funding this learning structure was €3.9 million for the period 2007-2009.

The proposal from SIPTU and the IDEAS Institute had two components – the development of a structure to facilitate and promote workforce education and training in two regions (Cork and Dublin) - and the delivery of training to meet the needs of the target group within the labour force. The learning structure proposed included the appointment of three training co-ordinators who would have responsibility for training 50 Union Learning Representatives who would in turn complete 1,000 identification of training needs assessments with individual workers and organise the required training for them. The cost to FÁS of this element of the proposal was €684,000. It was also proposed to provide 7,680 training days to 1,490 participants (including the 1,000 individuals mentioned above) at an estimated cost to FÁS of €1.5 million