
Department for Education and Skills Resource Account 2001-02

Report by the Comptroller and Auditor General

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Introduction

1. During the 2001-02 financial year, the Department for Education and Skills (DfES) was responsible for the management, closure and winding down of the Individual Learning Accounts scheme. Expenditure on this programme was accounted for within the DfES Resource Account. The Government introduced Individual Learning Accounts in England in September 2000, to widen participation in learning and to help overcome financial barriers to learning faced by individuals. Although anyone could open an account, the scheme was targeted at bringing back into learning those people who had not done any for some time and those who lacked skills and qualifications. In October 2001 the Secretary of State for Education and Skills announced withdrawal of the scheme from 7 December 2001 because:
 - demand for accounts was much higher than expected;
 - there were concerns about how the scheme was being promoted and sold;
 - some learning providers were abusing the system, offering low value, and poor quality learning; and
 - there were increasing numbers of complaints from learners.
2. The scheme was far more popular than expected. The Government's commitment to a million account holders was achieved in May 2001, almost a year early. By September 2001, take-up had increased by 50 per cent. Total expenditure on the scheme from its inception to 31 March 2002 amounted to £274.7 million compared to a budget of £199 million.
3. In line with Police advice, the Secretary of State closed the scheme with immediate effect on 23 November 2001, following allegations that a large number of account numbers had been extracted from the system underpinning the scheme and offered for sale. At the time the Department for Education and Skills estimated that if the scheme was not closed immediately, the value of fraudulent claims could run into tens of millions of pounds.

Allegations of fraud, irregular payments and abuse

4. Subsequent to the closure of the scheme, investigations by the Department have found evidence that the system was abused by learning providers and irregular payments were made. These investigations and compliance visits to learning providers have found that some providers registered a very large number of learners over a very short period of time and found evidence that a significant number of accounts were opened and incentives claimed without the knowledge or consent of the account holder.
5. In a number of cases, although learning was delivered, claims were not made in accordance with the scheme rules, for example the full contribution was not sought from the account holder, or there was insufficient documentary evidence supporting the claim. In some cases cash or other incentives were offered to individuals to enrol on courses. Analysis of the Department's records indicates that some learning episodes funded were ineligible under the scheme. Additionally, account holder details held on the ILA

database were offered for sale to other learning providers or used to book learning and claim funds. Research commissioned by the Department indicated that a number of learners registered as having started their training had not done so. Fictitious account holders were also created to claim funds. To date 60 arrests have been made; one provider has been successfully prosecuted for making fraudulent claims, ten individuals have accepted cautions and 13 have been charged (2 charges have since been dropped by the Crown Prosecution Services).

6. The precise extent of fraudulent activity will not be known until the Department's investigations are complete. However, the estimated net irregular payments are some £97 million of which, based on estimates and extrapolations, fraud and serious irregularities may be up to some £67 million. Also included is some £30 million where good quality learning was delivered but where the claims did not fully meet the scheme rules; for example, where the provider did not seek the full personal contribution from the learner. The Department cannot be more precise as more information is continually being received, processed and investigated. I am satisfied that the methodology adopted by the Department in estimating the levels of irregular payments is robust, and that £97 million represents the likely level of irregular payments made under the ILA scheme. The Department is unable, at this stage, to estimate how much of this amount it will be able to recover.

Qualification of Audit Opinion

7. In forming my audit opinion on the Department for Education and Skills Resource Account 2001-02 I am required to confirm whether, in all material respects, the expenditure and income of the Department have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In respect of the £97million of irregular payments made by the Department under the Individual Learning Accounts programme, this expenditure is not in accordance with Parliamentary intention, and my audit opinion has been qualified in this respect.

Further Information

8. I have recently completed a detailed report on Individual Learning Accounts (HC 1235 session 2001-02) which was published on 25 October 2002 and contained my conclusions on the overall management of the risks involved in designing and implementing the programme. This report was the subject of a Committee of Public Accounts hearing on 4 November 2002. Copies of my report are available from the Stationery Office or can be downloaded from the National Audit Office web site at www.nao.gov.uk.

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