

FINAL INTERNAL AUDIT REPORT
EDUCATION, CARE AND HEALTH SERVICES

REVIEW OF EARLY YEARS FOR 2017-18

Issued to: Carol Arnfield, Head of Service, Early Years, School Standards and Adult Education
David Bradshaw, Head of ECHS Finance

Cc: Aileen Stamate, Head of Service, Strategic Safeguarding, Complaints and Quality Assurance
Rosemary Meissner, Early Years Funding Manager
Ade Adetosoye, Executive Director of ECHS (Final Only)

Prepared by: Senior Auditor (Mazars LLP on behalf of LBB)
Principal Auditor

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REVIEW OF EARLY YEARS FOR 2017-18

INTRODUCTION

1. This report sets out the results of our systems based audit of Early Years for 2017/18. The audit was carried out in quarter 1 as part of the programmed work specified in the 2017-18 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 10th July 2017. The period covered by this report is from 1st April 2016 to 1st July 2017.
4. As at 1st July 2017, a total of 601 two year olds and 6,223 three to four year olds had been registered for Early Years Funding.
5. Between April and July 2017, a total of £4,934,308 had been paid for three and four year olds for the autumn, summer and spring terms. In the same period, a total of £555,040 had been paid for two year olds.

AUDIT SCOPE

6. The scope of the audit is detailed in the Terms of Reference.

AUDIT OPINION

7. Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

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MANAGEMENT SUMMARY

8. A sample of 15 pre-schools and nurseries, 5 Childminders, 20 two year old children, 10 three olds and 10 four year olds was selected for audit testing. The data was provided by the Early Years Funding Manager from the Early Years Database.
9. Controls were in place and working well in that:
 - All 20 providers selected for testing had been registered with Ofsted. In the case of one pre-school, sufficient evidence was sighted on Edubase, confirming its eligibility for the programme;
 - All providers tested had signed the Free Early Education (FEE) agreement;
 - Sufficient eligibility checks in line with HMRC guidelines had taken place for the two year old children at public, voluntary and independent sector settings receiving funding that were tested;
 - Payments to schools, pre-schools, nurseries and childminders were made on time and there was sufficient segregation of duties for the approval and processing of these. All payment batches examined had been authorised by the Head of Service; and
 - Budget monitoring reports examined had been reviewed and signed by the budget holder on a monthly basis.
10. However, we would like to bring to management attention the following issues:
 - There is currently no child data matching taking place between schools/academies, public, voluntary and independent settings and childminders to detect cases where children may be attending different settings and receiving separate funding;
 - The School Finance Team do not use the Online Early Years Eligibility checker to confirm the voucher code supplied by the school for the two year olds included on the census and claimed for free Early Education funding;
 - Discussion with the Early Years Funding Manager identified that it is not a requirement for providers to submit copies of their attendance registers for children they have claimed for. For apportionment claims, where payments need to be adjusted at the end of the term, checks on attendance registers are done for cases where the Early Years Team may have any queries or concerns. However, these checks are not recorded;
 - Information was requested from providers by the Early Years Funding Manager but was outstanding at the time of the draft audit report. Follow up with one provider indicated that documentation was not sourced promptly and prior to the submitted claim.
 - The Free Early Education (FEE) agreements do not contain fraud declaration clauses;

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- Discussions with the Early Years Funding manager established that a decision was made by the previous Head of Service that providers should not have to send in copies of ID and parent contracts. The Early Years team only carry out checks to confirm this documentation has been retained for all new providers and providers that have recently closed down;
- There is no audit trail on the claim checklist forms to confirm who has carried out the checks; and
- Not all procedures had been version dated.

SIGNIFICANT FINDINGS (PRIORITY 1)

11. None

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

12. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

13. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

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DETAILED FINDINGS

APPENDIX A

| No. | Findings | Risk | Recommendation |
|-----|--|--|--|
| 1 | <p><u>Data matching</u></p> <p>When schools provide details of the children eligible to receive Free Early Education funding as part of their termly headcount, the Performance and Information team carry out child data matching between schools by using duplicate pupil reports on the DfE Collect Site that are run for all pupils.</p> <p>For public, voluntary, independent (PVI) settings and childminders, child data matching takes place on an on-going basis through the use of Capita One. Capita One automatically highlights where more than 15 weeks have been claimed for, and where a child is attending more than one setting. These cases are then subsequently investigated.</p> <p>All 11 schools/academies now send their census information in the form of spreadsheets to Schools Finance and the Performance and Information Team. As schools/ academy information no longer comes to the Early Years Team via the Capita One system, there is no data matching between schools and the PVI settings.</p> <p>It should be noted that at the time of the audit, two out of the 11 schools registered for funding were still Bromley maintained schools, namely: Primary school B and Primary School D. It is unclear when the process for these two schools submitting census information changed to spreadsheets.</p> | <p>Children at different settings may be claimed for more than once, resulting in excess funding by the Council.</p> | <p>Data matching information between schools/ academies produced by the Performance and Information officers should be shared with the Early Years team to ensure more effective data matching between schools, PVI settings and childminders.</p> <p>(Priority 2)</p> |

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| No. | Findings | Risk | Recommendation |
|-----|--|---|--|
| 2 | <p><u>Two Year Old Eligibility Checks for Schools</u></p> <p>A census is completed on the third Thursday of every term, including children eligible for Free Early Education funding; this headcount is submitted to the Council.</p> <p>The Head of Schools Finance Support will check the 2 year olds on the return from the declared date of birth and e-mail the schools to request the eligibility document and code. Once the code has been received the funding will be released. There are no further checks to verify the code. Early Years use an Online Early Years Eligibility (OEYE) checker to verify the disclosed code and continued validity of the case before funding for 2 year olds is released. As at 18th May 2017, the schools census date for the summer term, there were a total of 28 two year olds that had been claimed for by the 11 schools registered for Early Years funding: 8 at Primary School A, 7 at Primary School B and 13 at Primary School C.</p> <p>Schools Finance Team have funded all school settings since April 2017, the exception being Primary School C whereby the Early Years team process and fund the claim. It was established that this was because duplicate payments had occurred. A remittance document for the overpayment of £20,884 and email suggesting repayment was sighted; further checks by Internal Audit verified that the value has been received into the Authority's accounts.</p> | <p>Ineligible children may be receiving Free Early Education funding.</p> | <p>The roles and responsibilities of the Schools, the Schools Finance Team and Early Years Team regarding eligibility checks for 2 year olds attending school settings should be reviewed. The voucher code should be checked to the OEYE.</p> <p>(Priority 3)</p> |

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|-----|---|---|--|
| 3 | <p><u>Attendance Registers</u></p> <p>Discussions with the Early Years Funding Manager identified that it is not a requirement for providers to submit copies of their attendance registers for children when they submit their termly claims.</p> <p>The Early Years Funding Manager stated that, for apportionment claims where payments need to be adjusted at the end of the term, checks on attendance registers are done for cases where the Early Years Team may have any queries or concerns. However, these checks are not formally recorded.</p> | <p>Where attendance registers are not requested from providers, there is an increased risk that inaccurate/fraudulent claims may be processed.</p> <p>Where records of sample checks on attendance registers are not maintained, there is a risk that the Council is unable to demonstrate due diligence.</p> | <p>Management should review whether copies of attendance registers should be provided along with the termly claims.</p> <p>Any checks of attendance registers should be formally recorded.</p> <p>(Priority 2)</p> |

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|-----|--|--|---|
| 4 | <p><u>Outstanding Information</u></p> <p>A sample of 20 two year old children, 10 three year olds and 10 four year olds was selected for testing to confirm that:</p> <ul style="list-style-type: none"> • identification documentation providing assurance of children’s ages and signed parent contacts were held by providers; and • children had attended their placements settings for the 2017 summer term. <p>At the time of the draft audit report, 6/9/17, information was outstanding for two children. Documentation was satisfactorily received from the providers at the beginning of the Autumn Term, however for Provider A, the Early Years Funding Manager established that the provider had not insisted on the supporting documentation before the claim or the child had accessed a free place.</p> | <p>Supporting identification documentation is not held by providers, meaning that ineligible children may be receiving free Early Education funding.</p> | <p>The Early Years Team should follow up with Provider A to ensure that the provider obtain the required documentation at the earliest opportunity and comply to the agreed procedures.</p> <p>(Priority 3)</p> |

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|-----|--|--|---|
| 5 | <p><u>Fraud Declarations</u></p> <p>Providers are required to sign a Free Early Education (FEE) agreement, detailing the terms and conditions of the funding provided. Examination of the FEE agreement identified that this did not include any fraud declaration clauses, although it is acknowledged that the FEE agreement was being revised and is currently in draft format.</p> <p>It was noted; however, that all public, voluntary, independent (PVI) settings and childminders are required to submit a claim form termly. Examination of this claim form confirmed that an appropriate fraud declaration was included; however, it was established that schools do not use this claim form to submit their termly pupil numbers etc.</p> | <p>Where providers are not bound to an appropriate fraud declaration, there is a risk that the Council may have limited recourse should fraudulent activity be detected.</p> | <p>Management should liaise with the Legal department to critically review the Free Early Education (FEE) agreement to agree the wording on a declaration to ensure providers (in particular schools/academies) are aware of the need to provide accurate information and the Council will take action to prosecute under the Fraud Act 2007 where necessary.</p> <p>(Priority 3)</p> |

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|-----|--|---|--|
| 6 | <p><u>ID and Parent Contracts</u></p> <p>The Early Years Funding manager stated that a decision had been made by the previous Head of Service, approximately four years ago, that providers should not have to send in copies of ID and parent contracts.</p> <p>The Early Years Funding Manager also stated that the team carry out checks on all new providers and providers that have closed to confirm that ID and parent contracts have been retained.</p> | <p>The Council is unable to detect whether children being claimed for by existing providers are eligible for Early Years funding.</p> | <p>Management should review the decision taken by the previous Head of Service to not request copies of parent contracts and child ID to be sent in.</p> <p>(Priority 3)</p> |
| 7 | <p><u>Checklist for claim forms</u></p> <p>Each provider has to provide a list of children and the hours claimed for each term. Each return is checked by a member of the Early Years team using a checklist, which is retained in the provider's file.</p> <p>Observation of an example of completed checklist documents identified that there was no clear audit trail detailing who had carried out the checks. This was confirmed through further discussions with the Early Years Manager.</p> | <p>Inability to demonstrate openness and transparency</p> | <p>The checklist for claim forms should be signed by the individual who has done the check to demonstrate openness and transparency.</p> <p>(Priority 3)</p> |

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| No. | Findings | Risk | Recommendation |
|-----|---|--|--|
| 8 | <p><u>Policies and Procedures</u></p> <p>Copies of all policies and procedures for the Free Early Education programme were obtained. Four of these procedure notes were found not to be version dated, namely:</p> <ul style="list-style-type: none">• Create New Child Record;• Create New Provider Record;• Early Years Set Up Draft; and• Process of Capita. | <p>Outdated policies and procedures may be adhered to.</p> | <p>Policies and procedures should be annually reviewed and the date of last review and next review should be clearly evidenced to demonstrate best practice.</p> <p>(Priority 3)</p> |

MANAGEMENT ACTION PLAN

| Finding No. | Recommendation | Priority *Raised in Previous Audit | Management Comment | Responsibility | Agreed Timescale |
|-------------|--|------------------------------------|--|---|------------------|
| 1 | Data matching information between schools/academies produced by the Performance and Information officers should be shared with the Early Years team to ensure more effective data matching between schools, PVI settings and childminders. | 2 | Early Years welcome data sharing with information held by schools | Schools Finance and Performance and Information Teams | November 2017 |
| 2 | The roles and responsibilities of the Schools, the Schools Finance Team and Early Years Team regarding eligibility checks for 2 year olds attending school settings should be reviewed. The voucher code should be checked to the OEYE. | 3 | The Schools and Schools Finance have received training and have available to them the Early Years online checker to validate eligibility for 2 year old funding. | Early Years Team, Schools and Schools Finance Team | November 2017 |

MANAGEMENT ACTION PLAN

| Finding No. | Recommendation | Priority *Raised in Previous Audit | Management Comment | Responsibility | Agreed Timescale |
|-------------|--|------------------------------------|---|-----------------------------|------------------|
| 3 | <p>Management should review whether copies of attendance registers should be provided along with the termly claims.</p> <p>Any checks of attendance registers should be formally recorded.</p> | 2 | <p>Review indicated insufficient capacity in current team to manage process of monitoring register submission and accuracy. Early Years to continue to manage the risk through spot checks where concerns arise or risks identified. A record of the spot checks to be maintained</p> | Early Years Funding Manager | October 2017 |
| 4 | <p>Follow up with Provider A to ensure that the provider obtains the required documentation at the earliest opportunity and comply to the agreed procedures.</p> | 3 | <p>E-mail sent to all providers reminding them of the importance of ensuring that they have the documentation in place before claiming funding and before a child accesses a free place.</p> | Early Years Funding Manager | September 2017 |

MANAGEMENT ACTION PLAN

| Finding No. | Recommendation | Priority *Raised in Previous Audit | Management Comment | Responsibility | Agreed Timescale |
|-------------|--|------------------------------------|--|-----------------------------|------------------|
| 5 | Management should liaise with the Legal department to critically review the Free Early Education (FEE) agreement to agree the wording on a declaration to ensure providers (in particular schools/academies) are aware of the need to provide accurate information and the Council will take action to prosecute under the Fraud Act 2007 where necessary. | 3 | A fraud declaration clause (approved by Internal Audit) was included in the new Grant Agreement issued in August 2017 | Early Years Funding Manager | August 2017 |
| 6 | Management should review the decision taken by the previous Head of Service to not request copies of parent contracts and child ID to be sent in. | 3 | Early Years have firm plans in place for the implementation of a new IT system to include online submission of parent contracts. Management review indicated insufficient capacity to include collection and monitoring of child ID. However, team will continue to manage risk through the use of spot checks where concerns arise. | Early Years Funding Manager | April 2018 |

MANAGEMENT ACTION PLAN

| Finding No. | Recommendation | Priority *Raised in Previous Audit | Management Comment | Responsibility | Agreed Timescale |
|-------------|---|---|--|-----------------------------|---------------------|
| 7 | The checklist for claim forms should be signed by the individual who has done the check to demonstrate openness and transparency. | 3 | Procedures have been changed and the checklist is now signed by the checking officer | Early Years Funding Manager | September 2017 |
| 8 | Policies and procedures should be annually reviewed and the date of last review and next review should be clearly evidenced to demonstrate best practice. | 3 | Procedures have been changed and the policies and procedures will be reviewed annually, dated and date of the next review included | Early Years Funding Manager | October 2017 |

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level

Definition

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.