Internal Audit Report

Review of Controls Operating Over Pre-School Provision Partnership Providers

Issued: March 2016

Level of Assurance	**Average** - The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.

Executive Summary

1.0 Introduction

The Children and Young People (Scotland) Act 2014 sets out that from the start of the school term following a child's third birthday, three and four year olds are entitled to 600 hours of free pre-school education. This is approximately the equivalent of 15 hours and 50 minutes per week over 38 weeks. Also, this free provision applies to parents of two year olds in receipt of qualifying benefits starting from the first term after the child's second birthday.

Midlothian Council provides nursery education to children either via nursery classes and schools run by the Council, or by commissioned partner nurseries within Midlothian. The partner nurseries are private sector nurseries which have satisfied the Council's eligibility criteria. Midlothian has a total of 2 nursery schools, 24 nursery classes and works with 16 partnership providers. The commissioning process is carried out by the Education Quality Assurance Team, with initial authorisation for the commissioned services by the Director. The Council is budgeted to spend £633,000 on these partnership nurseries for 2015/16 and is currently on target for this.

The Education Quality Improvement team carry out a range of quality monitoring visits at each partner nursery every term to determine whether the provider continues to meet the Council's standards. Additionally, providers must be registered with the Care Inspectorate and the Care Inspectorate will also carry out, normally, annual inspections. The results of all inspections by the Care Inspectorate, including any action plans, are submitted to the Education Quality Improvement team to monitor and discuss with the provider as required.

An Access database is used to record the details of all children receiving nursery education from partner providers within Midlothian. Payments are made to the provider based on the provider's pupil roll. These will either be three or six payments per annum depending on the provider's preference.

The application process for partner nurseries is administered locally by the nurseries themselves using forms issued by Midlothian Council. Parents are required to complete the application process and provide proof of eligibility at the partnership nursery. Although parents are able to apply to more than one nursery, each child is only eligible to receive a maximum of the standard 15 hours and 50 minutes entitlement. If a parent chooses to attend a Midlothian nursery and a partner nursery, the Midlothian owned nursery will be considered as first choice for the free provision. Time is spent by staff manually comparing the registers of partner nurseries and Midlothian owned nurseries to ensure pupils only receive the standard weekly entitlement. Different databases are used for the partner nurseries and the Midlothian owned nurseries, so

this is a time consuming process. However, it is noted that Midlothian is in the process of moving to a new database system which will hold the details of all pre-school pupils for both Midlothian nurseries and partner nurseries, so will streamline this process.

Finance and Integrated Service Support staff will undertake pupil census checking throughout the year. This includes receiving copies of pupil starter and leaver forms and communicating with the provider to confirm their pupil roll. As at November 2015, 456 pupils were attending partnership nurseries in Midlothian and 1,583 pupils were attending Midlothian owned nurseries.

2.0 Objectives of the Audit

The objective of the audit was to review the adequacy of the processes and controls for the Council's arrangements with Pre-School Partnership Providers for three and four year olds. This included guidance and procedures for staff, contracts, payments made to the nurseries, and performance monitoring.

3.0 Conclusion

Our Internal Audit has identified that:
*   adequate contracts were in place for the providers;
*   a detailed commissioning process is in place for a provider to be accepted as a partner and for this to be adequately authorised;
*   payments are made accurately and timeously to providers; and
*   regular and robust monitoring is carried out by quality improvement staff.

However, during our audit we identified some weaknesses which are further explained in the Management Action Plan. These included:
*   not all key provider documentation is periodically checked, including financial accounts, insurance and ICO registration;
*   although detailed monitoring is carried out, written procedures for this process could be further developed;
*   new contracts should be signed by the provider before payments are made;
*   management should ensure that when approving a contract with a new supplier Council employees are signing within their authorisation limit per the Council's Authorised Signatories system; and
*   improvements could be made to ensure the accuracy of the submitted pupil roll of the provider organisations, such as by introducing checks on a sample of organisations in the year.

The overall control framework is of an average standard. As noted above, some weaknesses have been identified in the controls and improvements are possible.   Therefore, we have on this occasion rated the review as Average as per the definitions on page 10. We have

raised a number of recommendations which are detailed in the Management Action Plan to reduce risk further and these recommendations have been agreed by management.

4.0 Findings

4.1   Procedures, Guidance, and Commissioning

Checks on Commissioning

Whilst the audit recognised a detailed process was in place for commissioning, in terms of confirming factual details about the establishment, delivery of education at the nursery, quality assurance, and management, we identified that some initial steps were missing. It is noted that Insurance information would be checked during Care Inspectorate audits. However, the contract for services is with the Council, not the Care Inspectorate.

These included:
- financial accounts to confirm the financial soundness of the business;
- proof of Information Commissioner's Office registration (ICO);
- credit check of the organisation.
- insurance documentation; and
- whilst some policies and procedures were checked as part of the commissioning process, there were inconsistency in what was asked for dependent on which employee was involved in the process.

Additionally, it was noted that there has not been recent contact with Procurement Services for the nursery commissions. It was noted that for two of the nurseries the annual spend exceeded £50,000, therefore non-competitive action forms should be submitted to Procurement Services.

No	Recommendation	Priority	Manager	Target Date
1	For future commissions, checks should be extended to include a review of financial accounts, credit check, insurance, and standardisation of key policies and procedures.	High	Quality Improvement Manager Education.	30/06/2016

No	Recommendation	Priority	Manager	Target Date
2	ICO Registration status should be confirmed for all providers.	High	Quality Improvement Manager Education.	30/04/2016
3	The Quality Assurance team should liaise with Procurement Services to review the current process and ensure that the Council's process, such as the submission of non-competitive action forms, is followed.	High	Quality Improvement Manager Education	30/06/2016

Written Procedures

A number of pro-formas are in place for the quality assurance process. This covers numerous aspects of the curriculum, resources, staff development and management. The monitoring is carried out by the Council's Education Quality Assurance staff. Although there are standard pro-formas in place, at the time of the audit there was no written procedure outlining the monitoring process.

There were written procedures in place for the payments and pupil administration process. Generally these were satisfactory, but it was noted that they only existed as a paper copy and had manual edits. Best practice would be to update and incorporate the manual edits into the electronic version. Additionally, it is noted that the pupil admission policy has been updated since the development of the procedures; therefore any future updates to the procedure should encompass this change.

No	Recommendation	Priority	Manager	Target Date
4	Written procedures should be developed for the quality assurance monitoring process. Written procedures should be updated for the payments and pupil administration process to incorporate all manual edits to the procedure and the Council's admission policy. The recommendation date reflects that a revised Early Years staffing model for pre-school provision is being put in place and procedures will follow on from this being implemented.	Medium	Quality Improvement Manager Education.	31/08/2016

Risk Register

The risk register for Nursery Education is included within the Education risk register. Whilst the risk register does cover a number of the key risks for Primary and Secondary Education, there was little detail noted for Nursery Education. Therefore, it was difficult to determine from the risk register how the key risks had been considered.

No	Recommendation	Priority	Manager	Target Date
5	The risk register should be reviewed from the perspective of nursery education and whether it requires update.	Medium	Head of Education	31/07/2016

4.2   Contracts

Signed Contracts

Testing identified four contracts which had not yet been signed and returned by the establishments for 2015/16. This carries the risk that partner nurseries may not have agreed to any updates to the contracts terms and conditions. The contracts have now been signed by the providers and returned to the Council.

No	Recommendation	Priority	Manager	Target Date
6	Contracts should always be signed before any payments are made.	Medium	Quality Improvement Manager Education.	Complete

Contract Authorisation

It is noted that the contracts for the partnership nurseries had all been signed by the Quality Improvement Manager Education and the owner or a senior officer at the provider. However, for three contracts it was noted that the total payments to the provider in the year exceeded £50,000, exceeding the authorisation level of the Quality Improvement Manager Education.

No	Recommendation	Priority	Manager	Target Date
7	For contracts exceeding £50,000 appropriate authorisation should be sought.	Medium	Head of Education	30/04/2016

4.3   Accuracy of Payments

Payment Accuracy

A sample of 19 payments were reviewed as part of the audit and checked to the pupil roll and rates per pupil session. One error, an underpayment of £962, was identified. Whilst the correct rates had been used and no issues were noted with the pupil roll calculation, this payment included a deduction for a progress payment made to a nursery and the progress payment figure used for the calculation was different from the actual payment made in the prior period. This resulted in the error of £962.

No	Recommendation	Priority	Manager	Target Date
8	As well as checking the pupil roll calculation, staff should check that progress payments made in past periods generated automatically by the pupil database agree to the actual payment.	Medium	Operational Support Manager	Complete

Pupil Registers Check

Pupil application forms and leaver forms are received from partner providers as evidence of their pupil roll. Additionally, on the payment slip the nursery manager must sign to agree the list of pupils we are making the payment for.

However, registers are never submitted to the school on a sample basis and are only agreed over the phone. It is noted that peripatetic teachers will often visit the nursery and have a reasonable knowledge at any time of the pupil roll at partnership nurseries, but this check is informal and does not involve comparing local registers to Midlothian's data.

No	Recommendation	Priority	Manager	Target Date
9	Consideration should be given to introducing a sample register check, eg to visit the nursery, obtain a copy of the physical register and to check to our own records. This would help minimise the risk of fraud or error.	Medium	Quality Improvement Manager Education.	30/04/2016

Pupil Database

It was noted that there are separate pupil databases in Midlothian for nursery pupils attending Midlothian owned nurseries and those attending partnership nurseries. The databases are not set up to communicate with each other.

This results in time being spent by staff manually recalculating and adjusting for pupils part attending Midlothian's classes and classes of a partner nursery.

However, it is noted that this year the Council will be moving to a new system (NAMS) which will record the details of both on the same system, which will save staff time significantly once implemented. Therefore, as management are already moving to a new system which will resolve this issue in future, no recommendation is made.

4.4   Monitoring and Compliance

Periodic check of Financials, Insurance and ICO Registration

Whilst detailed monitoring is in place covering numerous aspects of curriculum, resources, staff development and management, some aspects of monitoring are not covered. These were:
- annual check of the organisation's financial accounts;
- annual check that the organisation had satisfactory insurance arrangements in place; and
- confirmation that the organisation had registered with the information commissioner's office, as the organisation is handling sensitive children's data.

No	Recommendation	Priority	Manager	Target Date
10	An annual check of the organisation's accounts, insurance and ICO registration should be introduced.	Medium	Quality Improvement Manager Education.	31/08/2016

Tracking of Actions and Scorecard

It is noted that although detailed monitoring takes place for each term, an improvement could be made in the way actions are tracked. For example, recommendations are made within the body of the monitoring review making it difficult to get an overall impression of how many actions have currently been allocated to a nursery. Likewise, care inspectorate recommendations are not included as part of the general monitoring information so need to be looked up separately

Additionally, although the monitoring is detailed, standard KPIs (Key Performance Indicators) have not been included as part of the Contract/SLA conditions. These could include:
- Service Concerns/Complaints received
- % investigations completed within time period
- % staff trained to appropriate level, eg SVQ3 level
- % Absences children
- % Staff turnover
- % Provider questionnaires indicating satisfaction levels with service delivered

No	Recommendation	Priority	Manager	Target Date
11	It is recommended that Quality Improvement review the way actions are tracked and if this could be presented in a clearer manner.

Additionally, Quality Improvement should review the feasibility of introducing standard KPIs for partner providers. | Medium | Quality Improvement Manager Education. | 31/08/2016 |

APPENDIX 1

Definitions of Ratings

<u>Audit Opinion</u>

Level of Control	Reason for the level of Assurance given
Excellent	The control framework is of a high standard with no unacceptable risks identified.
Good	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
Average	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
Weak	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
Poor	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

<u>Recommendation Rating</u>

Priority	Risk Definition
High	Legal / regulatory issues would normally be regarded as high risks. Strategic risks would normally be regarded as high risks. Financial impact - £50K plus and / or national press interest
Medium	£5K - £49K and / or local press interest
Low	Under £5K and / or no press interest.

Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Mary Smith, Director, Education, Communities and Economy
- Gary Fairley, Head of Finance and ISS
- Grace Vickers, Head of Education
- Julie Fox, Quality Improvement Manager Education
- Kathleen Leddy, Operational Support Manager
- Other members of the Corporate Management Team
- Grant Thornton, External Audit

Audit Team

Author: James Polanski
Reviewer: Graham Herbert

APPENDIX 2

TERMS OF REFERENCE:

Audit Objective and Scope
Audit Objective The objective of the audit is to form an opinion on the adequacy of the processes and controls over the outsourcing of nursery provision to partner organisations. Scope of Audit The scope of the audit is to determine whether: • procedures are in place to approve third party nursery providers and, on a sample basis, check for compliance against those procedures; • contracts/SLAs are in place for all providers which set out the requirements for the service; • payments made to providers are accurate and adequately authorised; • arrangements are in place to ensure that providers are compliant with the requirements set out by relevant bodies such as the Information Commissioner's Office, the Care Inspectorate and Education Scotland; and • there is a monitoring and inspection regime for pre-school providers and the scheme of inspection is comparable for both external service provision and the service provided by Midlothian Council. Excluded from the Scope of the Audit No specific exclusions.
Potential Risks
Potential risks include: • non-compliance with best practice and legal and regulatory requirements; • failure to identify non-compliance through inadequate monitoring arrangements; and • incorrect payments made to suppliers resulting in financial loss to the Council.
Audit Approach

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;
- access to and interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting; and
- presentation of the final report to the Audit Committee.

Timescales & Reporting

The audit will commence in **October** and findings from the review will be reported to the next available Audit Committee.

Any issues arising will be communicated directly to local management as they are identified. A formal audit report will be produced summarising the findings and any recommendations identified during the review.

Information Requirements

Access to all relevant systems, documentation and employees.

Audit Resource

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