

Internal Audit & Corporate Anti-Fraud (CAFT) Report

Nursery Places – Free Early Education Funding July 2017

To: Family Services Director & Commissioning Director - Children & Young People
Assistant Director - Family Services
Head Of Early Years - Early Intervention & Prevention
Interim Data and Performance Manager
Family Services Finance Manager - Commissioning & Business Improvement
Early Years Standards & Quality Lead - Early Intervention & Prevention
Financial Administration Officer - Commissioning & Business Improvement
Early Years Funding Officer - Commissioning & Business Improvement
Early Years Registration Support Officer - Early Intervention & Prevention
Assistant Director of Finance, CSG
Deputy Funding Manager- CSG

From: Internal Audit Trainee
Fraud Investigations Officer

We would like to thank management and staff of Family Services and CSG for their time and co-operation during the course of the internal audit.

Cross Council Assurance Service

Executive Summary

Assurance level	Number of recommendations by risk category				
	Critical	High	Medium	Low	Advisory
Limited	-	1	3	2	1

Scope

This joint review between Internal Audit and CAFT focused on the core controls in place for processing Free Early Education (FEE) funding, with a particular focus on ensuring eligibility of payments made to providers on behalf of children and ensuring the monies awarded are appropriate and adhere to guidance. This review also focussed on the susceptibility of the scheme to fraud by providers, notably private, voluntary or independent settings where, due to their size, there is less separation of duties and there is an increased risk that the individual responsible for submitting FEE claims would benefit from making erroneous or false claims. As part of our review we undertook our own spot check audits on two providers.

Summary of findings

This audit has identified one high, six medium and one low risk findings.

We identified the following issues as part of the audit:

- **Early Years' Team Audits on providers (finding one, high):** We found the following issues:
 - **Frequency of Early Years Team Audits:** Early Years Team Audits on Private, Voluntary and Independent (PVI) providers - which were developed as a result of historic cases of fraud against the Council - had not been completed on a regular basis, with none performed in 2016 and only two completed so far in 2017 (both were completed in February);
 - **Referrals to CAFT:** An Early Years Team Audit performed in 2017 found that the provider had claimed for three children in spring 2017 but they had in fact not attended the setting during that term. CAFT consider that as a result of this Early Years Team Audit a referral should have been made to them to make an assessment as to whether the claim could have been fraudulent;
 - **Distribution of Early Years' Team Audit Reports to Family Services Finance Team:** The Early Years Team Audit placed an action on the Provider to submit an adjustment form to Family Services Finance Team for the three children. We found no

evidence to confirm this was completed but the Early Years Team did subsequently notify the Finance Team and an adjustment was made. We consider that the Finance Team should be automatically included in distribution lists detailing the outcomes of Early Years Team Audit to ensure that adjustments are made as early as possible and prevent overpayments to providers;

- **Actions resulting from the Early Years Team Audit process:** At the time of our audit we could not find evidence that actions recommended as a result of an Early Years Team Audit performed on 10 February 2017 had been completed or resolved by the Early Years Team; and
- **Completeness of Early Years Team Audit findings:** Internal Audit and CAFT revisited one provider who was spot checked in 2017. We found that another child claimed for had not attended the setting in spring 2017. Whilst this child was not included in the final Early Years Team Audit report we did find evidence that the error had been identified by the officer completing the audit but had been omitted from the final report and therefore not rectified.
- **Interim and Final Payments (finding two, medium):**
 - **80% interim payment:** We found that for the spring term of 2017 £71,013 was over paid as a result of the interim payment being higher than the actual amount due to providers. We were informed that the 80% interim payment was a higher percentage than that awarded by other Local Authorities.
 - **Headcount Claim issues:** 'Headcount week' – where providers insert the actual children attending that setting for a term is the third Thursday of every term. Thereafter – for a significant proportion of the term - adjustment forms should be submitted by providers to the Family Services Finance Team. We found this places emphasis on the providers to return information regarding child non-attendance and increases the risk that monies will be awarded to providers where children have left the setting or have not attended the setting for the maximum number of weeks. Management confirmed their intention is to allow for a rolling headcount which allows more time for providers to insert actuals and input changes to attendance and allows the process to be more proactive than is currently allowed through the adjustment form process.
- **Updating of FEE guidance for providers (finding three, medium):** We found that the '*Barnet Handbook for Free Early Education and Childcare for two, three and four years olds*' required updating to show current contacts at the Council and to include revised processes. We found instances where providers were unaware of their expectations regarding FEE and considered there was scope to better engage with providers.
- **Single point of failure (finding four, medium):** We found instances where tasks were not occurring in line with expectations as a

result of a single officer not being available and no cover arrangements being in place.

- **Payments made to providers for ineligible children (finding five, low):** We selected 25 children out of around 800 who had received Free Early Years funding for 2 year olds (FEE2) and asked for evidence to verify that they were eligible for the funding. For 1/25 (4%) children we could not find evidence that the child was, or had been, eligible for FEE2. This was due to an inputting error within the Funding Information System (FIS) which is software used to administer FEE payments to providers.
- **Downloads of Ofsted information (finding six, low):** The Early Years Team informed us that daily checks of the Ofsted register are completed to ensure that the team are aware of any relevant changes – for example a change in a provider’s Ofsted rating or that there is a change to their Ofsted registration. We found that checks were not in fact being completed routinely, with evidence of only one check being completed in January 2017 and none completed the w/c 20 March 2017. Management later confirmed that Ofsted checks were not needed daily as a number of other controls were in place to prevent the risk of a child being placed in a setting with an ‘inadequate’ or ‘poor’ rating.

Note: IDACI index: As part of the Free Early Education Entitlement, providers receive a supplement based on the Income Deprivation Affecting Children Index (IDACI) of the child’s home postcode. The index is calculated by the Office of the Deputy Prime Minister and measures in a local area the proportion of children under the age of 16 that live in low income households. We found that for Autumn 2016, the IDACI index was incorrectly processed and PVI’s received less than they were entitled to. We were informed the error was found and corrected by the end of the Spring 2017 term and all providers received any IDACI monies due to them as a result of the error; however, we considered there was a lack of oversight of the figures before the original payments were made. We had been informed that processes have been changed since the time of the oversight, including authorisation to make payments by a Senior Funding Officer, the Service Head and a Director. We accepted this as being reasonable but felt it worthy of note in this report.

2. Findings, Recommendations and Action Plan

Ref	Finding	Risks	Risk category	Agreed action
1.	<p><u>Unannounced Early Years' Team Audits on providers</u></p> <p>a) Frequency of Early Years Team Audits</p> <p>In 2008 the Council's Corporate Anti-Fraud Team (CAFT) completed Operation AXIOM which found that a PVI had fraudulently claimed £21,182 from the Council. As a result CAFT recommended an urgent implementation of a frequent and vigorous method of claim checking within the Delivery Unit to prevent and detect further fraudulent claims.</p> <p>Early Years Team Audits were redesigned by the Team to substantiate FEE claims made by providers. During 2013/14, as a result of the Early Years Team Audit on a PVI, the Early Years Team made a referral to CAFT who subsequently found the provider had been awarded more than £37,000 as a result of fraudulently falsifying children's details during the FEE process</p> <p>Management confirmed that under the direction of a previous line manager Early Years Team Audits had not been completed as they were considered not to be a priority at that time. As such, no Early Years' Team Audits were completed in 2016 and only two have been completed so far in 2017.</p> <p>At fieldwork Management confirmed they are reviewing the programme of Audits for 2017/18. It is expected that each PVI will be subject to an Early Years Team Audit every four years (chosen as a realistic frequency based on resource available to complete the audits and the number of PVI settings).</p>	<p>If fraudulent or erroneous claims are made by providers then there may be a financial loss to the Council and awards made to providers may not be spent on children's education.</p> <p>If fraudulent activity is not effectively investigated and pursued then there may be a financial loss to the Council, the Council will not reclaim monies to which it is entitled under the Proceeds of Crime Act (POCA) and the aims of the Anti-Fraud Strategy will not be realised.</p> <p>If errors found resulting from the Early Years Team Audit process are not communicated to the</p>	High	<p>Agreed action:</p> <p>a) Management will commence a new rolling programme of Early Years' Team Audits on PVI providers, ensuring that each provider is subject to an unannounced Early Years' Team Audit at least every four years.</p> <p>Responsible officer: Early Years Standards & Quality Lead</p> <p>Target date: Early Years Team Audits will be in place from Easter 2017.</p> <p>b) CAFT and the Early Years Team will agree criteria at which referrals will be made to CAFT as a result of Early Years Team Audits. This will allow CAFT to make an assessment as to the viability of opening an investigation regarding suspected fraudulent activity.</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>Priority will be given to those settings where there is a significant concern, for example as a result of previous audit findings or as a result of concerns raised at Official Settings Causing Concern meetings</p> <p>b) Referrals to CAFT</p> <p>One of the Early Years Team Audits performed by the Early Years Team in 2017 found that the provider had claimed for three children in spring 2017 but they had not attended that term.</p> <p>CAFT consider that when an Early years Team Audit finds that a provider is claiming for multiple children erroneously a referral should be made to CAFT immediately so that they can consider the appropriateness of commencing a formal investigation.</p> <p>c) Distribution of Early Years' Team Audit Reports to Family Services Finance</p> <p>The Early Years' Team Audit report resulting from the audit above placed an action on the provider to submit an adjustment form to the Family Services Finance Team for the three children. We found no evidence to confirm this was completed by the provider but later the Early Years Team did notify the Finance Team and an adjustment was made.</p> <p>Although an action was placed upon the provider to complete the adjustment form we consider that routinely communicating</p>	<p>Early Years Funding Officer then corrective action may not be taken and the Council award monies to providers to which they are not entitled.</p>		<p>Responsible officers: Early Years Standards & Quality Lead</p> <p>Head of Counter Fraud Operations, CAFT</p> <p>Target date: 31 May 2017</p> <p>c) The Early Years Team will distribute their audit reports to the Family Service Finance Team when they are issued. This will ensure that adjustments are processed as soon as possible.</p> <p>Responsible officer: Early Years Registration Support Officer</p> <p>Target date: 30 September 2017</p> <p>d) The Early Years Team will devise a method for ensuring actions placed on providers and the Team which result from Early Years Team Audits are tracked, actioned and closed. For example a spreadsheet</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>the outcomes of Early Years' Team Audits to Family Service Finance Team by, for example, including them on report distribution lists will allow corrective action to be taken as early as possible and prevent monies being awarded to providers erroneously.</p> <p>d) Actions resulting from the Early Years' Team Audit process</p> <p>During an Early Years Team Audit completed on 10 February 2017 the Early Years Team could not inspect statements to confirm how FEE is shown as being passed onto parent/guardians as the statements were prepared using systems not accessible to the Nursery at the time of the spot check. Therefore an action was placed on the Early Years Officer to confirm these arrangements after the spot check.</p> <p>At the time of our audit we were not presented with evidence that this action had been pursued by the Early Years Team or that the issue had been resolved. We were informed that this was due to a key officer taking unforeseen sick leave since the Early Years Audit.</p> <p>e) Completeness of Early Years Team Audit findings</p> <p>Internal Audit and CAFT revisited the provider mentioned above and re-performed the audit.</p> <p>We found that another child had not attended the setting in spring 2017 who had been claimed for.</p>			<p>which details the outcomes of Audit reports including actions, and their owners, deadlines and current status.</p> <p>Responsible officer: Early Years Standards & Quality Lead</p> <p>Target date: 30 September 2017</p> <p>e) For Early Years' Team Audits taking place at larger providers two members of the Early Years Team will perform the Audit. In such instances both Officers will agree to issue the final report and verify that the report contain the details of all adjustments which need to be made against a providers FEE which have been found as a result the Early Years' Team Audit process.</p> <p>Responsible officer: Early Years Standards & Quality Lead</p> <p>Target date: 30 September 2017</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>Whilst this child was not included in the final Early Years Team Audit report we did find evidence that this was found by the Officer completing the Early Years Team Audit. However as this was been omitted from the final report and therefore an adjustment was not made.</p>			
2.	<p><u>Eligibility for FEE2</u></p> <p>A child is eligible for Free Early Education for two years olds (FEE2) when criteria set by the Department for Education can be evidenced, for example if the parents receive certain DWP benefits or are looked after by the Borough. Eligibility is confirmed by the Early Years Team either through data received from the Department for Work and Pensions or through eligibility checks performed by the Parent Portal and uploaded onto the Funding Information System (FIS) software.</p> <p>We selected 25 children who had received FEE2 during autumn 2016 and spring 2017 and asked for evidence to confirm eligibility, either in FIS or source data received from the DWP. The current caseload of children receiving FEE2 is approximately 800.</p> <p>For one child (1/25, 4%) we found that the FIS system showed the child as not eligible for FEE2.</p> <p>Management confirmed that the FEE2 payments for this child should not have been made to the provider and that this was a manual error when processing the child within the FIS funding software. Were the error rate to be consistent across the population of children receiving FEE2 funding then 32 of those</p>	<p>If children and families are awarded free childcare to which they are not entitled then monies will be spent inappropriately and the Council will suffer a financial loss.</p>	<p>Medium</p>	<p>Agreed Action:</p> <p>a) The Early Years Team will implement a system of verifying a sample of children awarded FEE2 in each term are eligible for the funding. The sample will be chosen using a risk based approach, informed by the error identified during the audit.</p> <p>These checks will occur on a regular basis and evidence will be kept on file to demonstrate that the checks have been completed in line with expectations.</p> <p>Responsible officer: Early Years Standards & Quality Lead</p> <p>Target date: 30 September 2017</p> <p>b) Management will investigate</p>

Ref	Finding	Risks	Risk category	Agreed action
	children would have been ineligible.			<p>the potential to reclaim any monies owed to the Council as a result of the error</p> <p>Responsible officers:</p> <p>Head Of Early Years - Early Intervention & Prevention</p> <p>Family Services Finance Manager - Commissioning & Business Improvement</p> <p>Target date: 30 September 2017</p>
2.	<p><u>Interim and Final Payments</u></p> <p>a) <u>80% interim payments</u></p> <p>We calculated the difference between the interim payments (calculated as 80% of estimated pupil counts by providers at the start of the term) and the actual payment amounts as a result of actual pupil numbers and hours. For Spring 2017 £71,013 was overpaid by the Council as a result of higher estimated hours than actuals and £181,680 was owed to the Council at the end of 2016/17 as a result of overpayments made to providers.</p> <p>We considered that lowering the amount prepaid to providers from 80% may assist in lowering the amount needed to be reclaimed by the Council at the end of the financial year. During the course of our audit officers confirmed that the figure</p>	<p>If interim amounts are higher than actuals then providers may be overpaid, leading to funds having to be reclaimed by the Council and potential bad debts.</p> <p>If providers do not contact Family Services when a Child's attendance differed from that claimed for then then a provider may receive money to</p>	Medium	<p>a) Management will review the appropriateness of awarding an 80% advance payment to providers in time for any changes to be made for April 2018 after consultation in 2017/18 regarding the 30 hour offer.</p> <p>Responsible officer: Head of Early Years - Early Intervention & Prevention</p> <p>Target date: April 2018</p> <p>b) Before interim payments are processed, the Family Services</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>of 80% is higher than that paid by other Local Authorities with some boroughs paying 40%. Based on the figures for the spring 2017 term and using those providers who received a greater interim payment than actual payment, a more appropriate percentage which would not have led to an overpayment for that term would have been 66%.</p> <p>We asked management to confirm the rationale behind the 80% advance payment. The 80% advance payment was chosen after provider consultation in 2009 and was implemented from 1 April 2010. This level was chosen as a result of the consultation and the need to ensure that providers were sustainable.</p> <p>Management confirmed that from April 2018 the Council - as part of the increase in FEE entitlement to 30 hours per week - will be required to pay providers monthly should they require it. Management considered that once they know how many providers will require monthly payments there is scope for consultation regarding reducing the upfront payment to 50%.</p> <p>Management confirmed that going forward there will be a review of all interim payments before they are processed. The projected pupil numbers will be reviewed against the previous term's actuals and for any anomalies the Early Years Team will contact the providers to verify projections.</p> <p>b) <u>Headcount Issues</u></p> <p>The current process requires providers to input their estimated headcount at the start of the term which is updated with actual figures on the third Thursday of every term, known as</p>	<p>which it is not entitled.</p>		<p>Finance Team will identify providers whose proposed interim payments does not appear in line with the previous term's actuals.</p> <p>The Early Years Team will then ask providers to confirm projected pupil numbers.</p> <p>Responsible officers: Early Years Standards & Quality Lead</p> <p>Early Years Funding Officer - Commissioning & Business Improvement</p> <p>Target Date: 30 September 2017</p> <p>Agreed action:</p> <p>c) A rolling headcount will be introduced by Family Services to ensure that there is greater emphasis on providers to input the most up-to-date information before payments can be processed and made to providers. Providers should be reminded of their responsibility to update the portal.</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>'headcount week'. Once the actual figures have been input any further changes require the provider to submit an adjustment form, which allows the Early Years Funding Officer to manually update the hours the child attended and, thus, the claim made by the provider. This means that for the majority of the term the onus is on the provider to update the Funding Officer. For example, spring 2017 is a 12 week term. After headcount week there are eight weeks where the providers do not update any information aside from via adjustment forms.</p> <p>Management confirmed that their intention is to change the system so that there is a rolling headcount and this allows more time for the provider to input information proactively and update the system. From our review of the system we consider this approach would be advantageous in allowing greater opportunity and placing emphasis on providers to input correct information which covers the child's attendance during the whole term.</p>			<p>Responsible officer: Early Years Funding Officer - Commissioning & Business Improvement</p> <p>Target date: 31 July 2017</p> <p>d) Schools Funding Officers within CSG and the Family Services Finance Team will agree key dates for rolling headcounts to finish that will allow for duplicate checks to be completed in a timely manner whilst also reducing the number of adjustments needed.</p> <p>Responsible officer: Family Services Finance Manager - Commissioning & Business Improvement Deputy Funding Manager, CSG</p> <p>Target date: 30 September 2017</p>
3.	<p>Updating and communication of FEE guidance for providers</p> <p>We found that the <i>'Barnet Council Handbook for Free Early</i></p>	<p>If expectations are not clearly communicated to providers then</p>	<p>Medium</p>	<p>Agreed Action:</p> <p>a) The Council's guidance relating to FEE provision within the</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p><i>Education and childcare for two, three and four years olds'</i> was dated September 2014 and was due for review in September 2015. Whilst we considered the document comprehensive we found a number of updates were required:</p> <ul style="list-style-type: none"> • The document makes referrals to the submission of a claims form but the new process involves the use of the FIS system which supersedes claims forms. • A number of contacts named in the document have left the Council since the document was published <p>Management confirmed that they intended to update the guidance but were waiting for the Department for Education to clarify how FEEE was going to be delivered for the 2017/18 academic year. The Department have now published the revised guidance and the Barnet Guidance will be updated accordingly.</p> <p>Management also confirmed that workshops were being planned for the summer 2017 term which all providers would attend to discuss changes to the FEE process and the intention was to communicate the updated <i>Barnet Council Handbook for Free Early Education and childcare for two, three and four years olds'</i> policy at these workshops.</p>	<p>providers may make erroneous claims for FEE to which they are not entitled and safeguards put in place by the Family Services to support the FEE scheme may not be operational.</p>		<p>Borough will be updated</p> <p>Responsible officer: Early Years Registration Support Officer - Early Intervention & Prevention</p> <p>Target date: 30 September 2017</p> <p>b) Once updated the revised Council guidance relating to FEE provision will be communicated to all providers at the planned workshops</p> <p>Responsible officer: Early Years Standards & Quality Lead</p> <p>Interim Data and Performance Manager.</p> <p>Target date: 31 July 2017</p> <p>c) If providers do not attend the workshops then the revised Council guidance relating to FEE provision will be sent to them.</p>

Ref	Finding	Risks	Risk category	Agreed action
				<p>Responsible officer: Early Years Standards & Quality Lead</p> <p>Target date: 31 July 2017</p>
4.	<p><u>Single Point of Failure</u></p> <p>We found instances where a key officer had taken unexpected sick leave and as a result:</p> <ul style="list-style-type: none"> • Early Years Team Audits on providers were not completed at the start of January 2017 as had been intended (see recommendation 2); • Actions resulting from Early Years Team Audits were not pursued (see recommendation 1); and • Review of Ofsted downloads were not occurring in line with expectations communicated to us at the time of the audit (see recommendation 6). <p>Management confirmed this had been identified as an issue and processes have been put in place to ensure that key tasks can be performed should a member of staff not be available, for example through job shadowing and training. We consider this should be monitored to ensure that key tasks are being completed in line with expectations.</p>	<p>If key officers involved in the Early Years Team are unavailable then key tasks may not be completed in line with expectations.</p>	<p>Medium</p>	<p>Agreed Action:</p> <p>Management will review the tasks performed by key Officers to ensure that other officers performing key tasks to eliminate the risk of a single point of failure occurring in the FEE Process.</p> <p>Management should review such arrangements to ensure that tasks occur in line with expectations.</p> <p>Responsible Officer: Early Years Standards & Quality Lead</p> <p>Target Date: 30 September 2017</p>
5.	<p><u>Eligibility for FEE2</u></p> <p>A child is eligible for Free Early Education for two years olds (FEE2) when criteria set by the Department for Education can</p>	<p>If children and families are awarded free childcare to which they are not</p>	<p>Low</p>	<p>Agreed Action:</p> <p>a) The Early Years Team will implement a system of verifying</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>be evidenced, for example if the parents receive certain DWP benefits or are looked after by the Borough. Eligibility is confirmed by the Early Years Team either through data received from the Department for Work and Pensions or through eligibility checks performed by the Parent Portal and uploaded onto the Funding Information System (FIS) software.</p> <p>We selected 25 children who had received FEE2 during autumn 2016 and spring 2017 and asked for evidence to confirm eligibility, either in FIS or source data received from the DWP. The current caseload of children receiving FEE2 is approximately 800.</p> <p>For one child (1/25, 4%) we found that the FIS system showed the child as not eligible for FEE2. Where the error rate to be consistent across the population of children receiving FEE2 funding then 32 of those children would have been ineligible.</p> <p>Management confirmed that the FEE2 payments for this child should not have been made to the provider and that this was a manual error when processing the child within the FIS funding software.</p>	<p>entitled then monies will be spent inappropriately and the Council will suffer a financial loss.</p>		<p>a sample of children awarded FEE2 in each term are eligible for the funding. The sample will be chosen using a risk based approach, informed by the error identified during the audit.</p> <p>These checks will occur on a regular basis and evidence will be kept on file to demonstrate that the checks have been completed in line with expectations.</p> <p>Responsible officer: Early Years Standards & Quality Lead</p> <p>Target date: 30 September 2017</p> <p>b) Management will investigate the potential to reclaim any monies owed to the Council as a result of the error</p> <p>Responsible officers: Head Of Early Years - Early Intervention & Prevention Linda Burbidge, Family Services Finance Manager - Commissioning</p>

Ref	Finding	Risks	Risk category	Agreed action
				& Business Improvement Target date: 30 September 2017
6.	<p><u>Downloads of Ofsted registers</u></p> <p>We were informed that the Early Years Team perform daily checks of the Ofsted database to ensure that there are no changes or updates of providers within the Ofsted register, for example if there is a change to Ofsted rating or registration.</p> <p>We found instances where there was insufficient evidence to confirm this was happening routinely:</p> <ul style="list-style-type: none"> • We could only find evidence of an Ofsted download being completed once in January 2017; and • We were informed that a download was not completed in the week commencing 20 March 2017. <p>In both cases we were informed this was because a key officer had taken unexpected leave.</p> <p>Management stated that a call was made to Ofsted at the time of the Officer's leave to ask them to notify the Council should a provider's Ofsted rating change to 'inadequate'. Management also stated that the Early Years Team would be aware if there is going to be a change to a Providers Ofsted registration. As such daily downloads may not be necessary.</p> <p>We consider that review of the frequency of Ofsted downloads should be agreed and happening in line with these expectations.</p>	<p>If changes to a providers Ofsted accreditation are not found by the Early Years Team then children may continue to attend providers without the necessary safeguards in place to receive Ofsted accreditation</p>	<p>Low</p>	<p>Agreed Action:</p> <p>Management will agree a proportionate frequency to download Ofsted registers.</p> <p>Management will ensure that Ofsted registers are downloaded and scrutinised in line with the revised expectation.</p> <p>Responsible officer: Early Years Standards & Quality Lead</p> <p>Target date: 30 September 2017</p>

ADVISORY FINDINGS

REF	FINDING	RECOMMENDATION
1.	<p>New Provider Information - BACS forms</p> <p>We selected twelve providers received FEE and inspected whether balancing payments matched the calculation by the Family Services Finance Team.</p> <p>We found that one provider - which had become operational in spring 2017 - had not received their spring 2017 FEE entitlement as a BACS form had not been received.</p> <p>We found evidence that the Early Years Funding Officer had contacted the Early Years Team to notify them of the issue; however, we could find no evidence to confirm that the Provider had been contacted to complete the BACS form at the time of the audit.</p> <p>We considered that the BACS form should be completed for new providers as a matter of routine to ensure that payments are made to providers promptly.</p>	<p>Agreed action:</p> <p>BACS information for new provider should be routinely collected and processed to allow for timely payments to be made to providers</p> <p>A letter will be issued to providers who have not completed a BACS form and notify them of the consequences of not completing and returning the form.</p>

Appendix 1: Definition of risk categories and assurance levels in the Executive Summary

Risk rating	
Critical 	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance (e.g. mass strike actions); or Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members & Senior Directors are required to intervene; or Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.
High 	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff; or Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.
Medium 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff; or Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.
Low 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or Minor impact on the reputation of the organisation; or Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or Handled within normal day to day routines; or Minimal financial loss, minimal effect on project budget/cost.
Level of assurance	
Substantial 	<p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p>
Reasonable 	<p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p>
Limited 	<p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p>
No 	<p>There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.</p>

Appendix 2 – Analysis of findings

Area	Critical		High		Medium		Low		Advisory	Total
	D	OE	D	OE	D	OE	D	OE		
Free Early Education Funding Administration	-	-	-	1	-	3	-	2	1	7
Total	-	-	-	1	-	3	-	2	1	7

**Includes two findings relating to control design and operating effectiveness*

Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

Timetable					
Terms of reference agreed: 9 December 2016	Fieldwork commenced: 13 March 2017	Fieldwork completed: 5 April 2017	Draft report issued: 11 April 2017	Final management comments received: 14 July 2017	Final report issued: 17 July 2017

Appendix 3 – Identified controls

Area	Objective	Risks	Identified Controls
<p>Early Free Education Funding Administration</p>	<p>Free Early Education Funding is processed correctly and timely and in-line with statutory guidance to ensure that provision is appropriately funded by the Council</p>	<p>If children and families are awarded free childcare to which they are not entitled then monies will be spent inappropriately and the Council will suffer a financial loss.</p>	<p>All FEE2 and FEE 3-4 in PVI (private, voluntary and independent settings)</p> <p>Role of provider to inputs their estimated children numbers within FIS at the start of the term. This forms the total estimated costs and 80% is paid to the provider in advance.</p> <p>Actuals later input into FIS by the provider.</p> <p>Changes can then be made by the provider submitting an adjustment form.</p> <p>The balance is paid by the provider or invoices sent to providers to pay the balance.</p> <p>Balancing payments are signed off by the Funding Officer, A senior funding officer, the Head of Early Years and an AD or above.</p> <p>FEEE 3-4 for children at academies and schools.</p> <p>Estimate made using previous year's data (use same term last year as there are fluctuations between terms (Autumn fewer numbers than in Spring which has fewer than Spring.</p> <p>Actuals then calculated using pupil information from the census data.</p> <p>Payments made as part of the Schools Funding schedule.</p> <p>All FEE</p>

			A duplicate check is completed in the Early Years team to ensure that two providers are not being paid for the same child.
		If the Early Years Providers do not perform adequate checks of children then the provider may receive funding to which it is not eligible to.	The Early Years Team guidance entitled ' <i>Barnet Council handbook for Free Early Education and childcare for two, three and four year olds</i> '.
		If fraudulent or erroneous claims are made by providers then there may be a financial loss to the Council and awards made to providers may not be spent on children's education.	Early Years Team Audits are complete by the Early Years Team to verify that calms are being made in accordance with the guidance
		If fraudulent activity is not effectively investigated and pursued then there may be a financial loss to the Council, the Council will not reclaim monies to which it is entitled under the Proceeds of Crime Act (POCA) and the aims of the Anti-Fraud Strategy will not be realised.	Referrals are made to CAFT when there are suspicions of fraud, including as a result of spot checks.
		If awards are made to providers not registered with Ofsted then childcare may be delivered by providers which do not have the necessary safeguards in place to receive Ofsted accreditation.	Early Years Team complete Ofsted checks daily to verify: <ul style="list-style-type: none"> • PVI's have not ceased registration with Ofsted That there have been no inspections where a PVI which a "good" or 'outstanding'; rating has dropped below 'good' (e.g. requires improvement

		<p>If children and families are awarded free childcare to which they are not entitled then monies will be spent inappropriately and the Council will suffer a financial loss.</p>	<p>Parents complete eligibility search on line using the Portal</p> <p>Results transferred into FIS funding system.</p> <p>Brokerage officers check eligibility before placing child into setting.</p>
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Appendix 4 – Internal Audit roles and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Free Early Education Funding subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Specifically we will not cover the process of reporting estimated and actual costs of the FEE scheme to the Department for Education.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.