

Maintained Nurseries

City of York Council

Internal Audit Report 2016/17

Business Unit: Children, Education and Communities
Responsible Officer: Assistant Director Education and Skills
Service Manager: Headteachers
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Status: Final
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	P1	P2	P3
Actions	0	2	4
Overall Audit Opinion	Reasonable Assurance		

Summary and Overall Conclusions

Introduction

The Authority has seventeen maintained nurseries providing early years education during term time only.

The maintained nurseries are funded for delivery of the free early years education entitlement by the Local Authority. Any additional nursery hours delivered above the free entitlement are chargeable by the provider.

Early Years Pupil Premium (EYPP) can be claimed for those in receipt of certain benefits, if a child that has been looked after by the local authority for at least one day, has been adopted from care, has left care through a special guardianship order, or is subject to a child arrangement order.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the systems in place at the maintained nurseries ensure that:

- Funding for delivery of free entitlement is claimed correctly and in full
- Eligibility checks for free entitlement are completed and evidenced
- EYPP is claimed correctly
- A charging policy is in place and correctly applied
- Spare nursery places are effectively managed
- Nursery budgets are monitored and controlled

A pre-audit questionnaire addressing the above-stated objectives was issued to fourteen maintained nurseries. Audit visits were then undertaken at seven nurseries in order to review their procedures in detail.

Key Findings

Of the 14 maintained nurseries reviewed, responses to the pre-audit questionnaire indicated that nine nurseries were not oversubscribed and that five either operated at loss or were unsure of their financial position. Just three nurseries stated that they offered additional chargeable hours and only four stated that they offered the 30 hours provision, with no nurseries offering the stretched entitlement option.

For the nurseries visited it was found that there were very few discrepancies between the funded hours on record with the Authority and those recorded on the Parent Declaration Forms and that they agreed to the attendance records. This suggests that, in the main, funding is being claimed correctly. However, it was observed that nurseries did not reconcile the final funding figure to an expected amount due and thus are not able to directly confirm the accuracy of the funding received. It was also noted that Half Term Notification Forms had not always been completed and submitted to the Authority in order that the funding is allocated appropriately for those children starting or leaving mid term. Any identified errors have been separately communicated to the Council's Early Years Team.

For two nurseries visited, eligibility checks did not include satisfactory evidence that dates of birth had been verified for the period reviewed.

In general, the existence of EYPP had been satisfactorily communicated to parents, making use of a variety of different media to raise awareness. Testing provided assurance that pupils approved as eligible for free school meals had been correctly entered onto the school's records for EYPP purposes.

All charges raised in each of the nurseries visited were included within the school's charging policy. Income raised through these charges could be traced to the relevant bank statements and to the accounts. Arrears were not found to be significant and appropriate action had been taken where necessary.

Responses to the pre-audit questionnaire raised some concerns about the number of spare places. Three nurseries visited were operating at significantly lower than capacity. However, at only one of these nurseries is the issue likely to persist beyond spring term 2017. A variety of means of managing places over the longer term was found but these were not always well evidenced or formalised.

Budget monitoring is not generally being carried out separately for maintained nurseries. All income and expenditure relating to the nursery is not readily identifiable in the accounts and, for most nurseries, monitoring is only completed as part of the full school budget. Attempts to establish the financial position of the nursery were limited to a high level analysis involving staffing costs against funding received.

Overall Conclusions

The arrangements for managing risk were satisfactory with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

1 Budget monitoring

Issue/Control Weakness

Lack of budget monitoring for maintained nurseries.

Risk

Appropriate action may not be taken to prevent losses as the financial position of the maintained nursery is not known.

Findings

Budget monitoring is not being carried out separately for maintained nurseries. While the overall financial position of the nursery may be monitored at a high level, by comparing staffing costs to the early years education funding received from the Authority, its budget is not monitored to the same level of detail or frequency as the full school accounts. Under the current coding structure of the school finance system there is not the level of detailed coding to separately attribute revenues and costs to the nursery in order to facilitate effective budget monitoring.

Of the fourteen nurseries reviewed, three stated they were operating at a loss and that their governors were aware of the deficit. However, evidence of reporting to governors was only seen in two cases.

Four nurseries stated that they were unsure of their financial position while seven nurseries advised that they were not running at a loss. However, those visited during the audit could not provide any direct evidence that this was the case.

Agreed Action 1.1

A method to assist schools to monitor the nursery budget will be developed. This will be achieved either by implementing a classification code on Civica Financials Web to allow separate identification of nursery expenditure or by creating a simple spreadsheet template to enable income and direct costs to be monitored. Attendees at the York Heads Event were also reminded of the need to monitor the nursery budget.

Priority

2

Responsible Officer

School Business and Monitoring Officer

Timescale

November 2017

2 Verification of early education funding amount

Issue/Control Weakness

Maintained nurseries do not confirm that the amount of funding received for delivery of free early years education is correct.

Risk

Errors made by the Authority are not identified, resulting in either under or overpayment of the early education funding.

Findings

None of the maintained nurseries directly verify that the adjusted amount of early education funding they receive for the term matches the amount due based on their submission. Instead, for most nurseries, basic reasonableness checks are undertaken using previous terms' funding amounts and taking into consideration any changes in enrolment or attendance during the term. Overall, there was a lack of understanding as to how the final funding figure is arrived at and, as a result, maintained nurseries generally only investigate any unreasonable variances between the Council's initial notified payment (based on the previous year) and actual payments received (calculated by extracting data from the school census records) . As such, the nurseries do not confirm that all children attending the nursery have been correctly funded.

Agreed Action 2.1

The funding process for schools with maintained nurseries will be revisited to help them understand the termly funding they are receiving. This should also help to ensure that the termly funding payments that the schools receive are correct.

Priority

2

Responsible Officer

Childcare Sufficiency Manager

Timescale

November 2017

3 Half Term Notification Forms

Issue/Control Weakness

Half Term Notification Forms are not being completed and submitted to the Authority.

Risk

Inaccurate funding of children moving to and from the nursery mid term.

Findings

According to the evidence provided during the audit, only six children (less than 2% of all children enrolled) were found to have joined or left the audited nurseries mid term during summer term 2016. Of these six children, Half Term Notification Forms had only been completed for two. For two of the three nurseries at which children left or joined part way through the term, the forms were not completed for any of its children while the remaining nursery had completed a form for two out of its three children. This suggests that not all nurseries are sufficiently aware of the need to submit the form to the Authority in order to secure funding or notify the Authority of the changes so that it can reallocate funding to the correct provider. The Council's Early Years Team has been notified of the cases where Half Term Notification Forms had not been submitted.

Agreed Action 3.1

A York Heads Event on delivering financially sustainable and high quality 30 hours childcare was held on 19 June 2017. The event was specifically aimed at headteachers and their school business managers or bursars but the invitation was extended to Early Years practitioners and governors. This finding was shared by Head of Finance (Children and Adult Services) who reminded attendees of their responsibility to submit the forms to notify the Authority of mid term changes.

Priority

3

Responsible Officer

Head of Finance
(Children and Adults
Services)

Timescale

Implemented

Agreed Action 3.2

Schools with maintained nurseries will be requested to nominate a specific contact to whom the Authority will send all Early Years correspondence and liaise with where necessary.

Priority

3

Responsible Officer

Childcare Sufficiency
Manager

Timescale

November 2017

4 Eligibility checks

Issue/Control Weakness

Dates of birth are not always verified to confirm eligibility for funding.

Risk

Children who are not eligible may receive free early years education funding.

Findings

Of the seven nurseries visited, one nursery had no specific procedure in place during summer term 2016 for ensuring that birth certificates were checked to confirm date of birth (a more rigorous checking procedure has since been introduced) and one nursery confirmed that, although a procedure was in place, these checks were not evidenced and were often not able to be applied.

Agreed Action 4.1

Head of Finance (Children and Adult Services) shared this finding at the York Heads Event, reminding attendees of the need to see proof of date of birth as part of the eligibility checking process.

Priority

3

Responsible Officer

Head of Finance
(Children and Adults
Services)

Timescale

Implemented

5 Spare place management and forward planning

Issue/Control Weakness

Long term spare place monitoring and forward planning is not adequately evidenced.

Risk

Spare nursery places may not be effectively managed and the nursery losses income/funding.

Findings

Of the fourteen maintained nurseries reviewed, nine stated that they were not oversubscribed. Of these nine, four stated they were operating at a loss or were unsure of their financial position but appeared to have taken little or no action to increase flexibility of provision or to offer additional chargeable sessions or the extended entitlement.

Of the seven nurseries visited three had no evidence of long term monitoring of spare places or expected usage (e.g. based on preferred attendance patterns for children on the waiting list). Two of these nurseries were operating below capacity.

In general, there appeared to be lack of evidence in committee minutes of forward planning or routine consideration of nursery issues.

Agreed Action 5.1

Head of Finance (Children and Adult Services) shared this finding at the York Heads Event, reminding attendees of the need to monitor spare places and to forward plan. Attendees were also reminded that the business affairs of the nursery should be shared with governors on a frequent basis.

Priority

3

Responsible Officer

Head of Finance
(Children and Adults
Services)

Timescale

Implemented

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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