

GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION

COMMITTEE SUMMARY

Item 6(f)

6th November 2019

Title of the Audit: Education Services and Financial Services – Tax Free Childcare Scheme

1. Introduction

1.1 The tax free childcare scheme is a new scheme introduced by Her Majesty's Revenue and Customs (HMRC), which helps families with childcare costs. The scheme became widely available on the 14th February 2019 and will eventually replace the current voucher schemes. The new scheme consists of the government paying £2 for every £8 a parent / guardian pays to their childcare provider, up to the value of £2,000 per child per year. This is paid via an online childcare account. Both parents / guardians and providers are required to register for an account via the HMRC website.

1.2 There are currently 109 Glasgow City Council (GCC) nurseries of which 99 are in receipt of childcare charges and are required to register for the tax free childcare scheme in order to give parents / guardians the option of paying via this method. Each establishment should have a main contact and delegate set up to manage the account. For all establishments, the GCC bank account should be recorded on the system to allow payments to be received correctly.

1.3 Payments received through this scheme are allocated and reconciled by Financial Services.

1.4 The purpose of the audit was to gain assurance that Education Services (EDS) and Financial Services (FS) have adequate processes and controls in place for the tax free childcare scheme, including the receipt and allocation of funds received. The scope of the audit included:

- Documented procedures, staff awareness and training provided on the tax free childcare scheme for all relevant staff involved.

- A walkthrough of all aspects of the process, including the setting up of childcare accounts.
- Selecting a sample of nurseries to confirm that childcare accounts have been set up accordingly.
- Reviewing a sample of tax free childcare payments to ensure appropriate allocation.
- A review of the monitoring and reconciliation arrangements in place.
- Verifying that adequate records are held to support the process.
- Verifying that there are appropriate debt management arrangements in place.

2. Audit Opinion

2.1 Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements and three recommendations which management should address.

3. Main Findings

3.1 We are pleased to report that key controls are in place and generally operating effectively. There are documented procedures in place that detail the HMRC registration process and these have been communicated to the relevant EDS establishments.

3.2 Reconciliations between the monies received in the GCC bank account and the invoices raised for childcare payments are conducted on a weekly basis by the FS Ledger Control and Banking Team.

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3.3 Debt management arrangements are in place to identify and take action in respect of customers with outstanding childcare charges. Additionally, in the sample of 10 tax free childcare payments sampled, there were two instances where the payment had not been paid in time; in both instances we found that the debt management arrangements had been followed.

3.4 However, our audit testing found that there are some areas of non-compliance. Although a record is held of nurseries that have completed the HMRC tax free childcare registration, the information held is incomplete e.g., for seven nurseries, although they had completed the registration process, this had not been reflected in the record held. Furthermore, the main contact and delegate details were not recorded for some entries.

3.5 To confirm that the HRMC tax free childcare registration had been completed correctly by those nurseries who have registered, the auditor selected five nurseries for review. For all five nurseries, the correct GCC bank account details had been registered and two suitable users had been set up to access the system, however, through discussions with staff it was apparent that the accounts were being used by staff other than the allocated users in some cases. In addition, we found instances where the password and answers to the security questions set up for the accounts were written down and accessible to other staff.

3.6 An action plan is provided at section four outlining our observations, risks and recommendations. We have made three recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	1
Medium	Less critically important controls absent, not being operated as designed or could be improved.	1
Low	Lower level controls absent, not being operated as designed or could be improved.	1
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

3.7 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.8 We would like to thank officers involved in this audit for their cooperation and assistance.

3.9 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: All relevant nurseries have completed the HMRC tax free childcare registration process correctly.				
1	<p>To confirm that the HRMC tax free childcare registration had been completed correctly by those nurseries who have registered, we selected five nurseries for review. For all five nurseries, the correct GCC bank account details had been registered and two suitable users had been set up to access the system, however, through discussions with staff it was apparent that the accounts were being used by staff other than the allocated users in some cases. In addition, we found instances where the password and answers to the security questions set up for the accounts were written down and accessible to all staff.</p> <p>This increases the risk that unauthorised staff may log in to the system and change key information, e.g. – bank details.</p>	<p>EDS management should remind establishments that passwords should not be shared with or made accessible to other members of staff.</p> <p>Where passwords have been shared, establishments should be advised to change their tax free childcare account passwords and answers to the security questions immediately.</p>	High	<p>Response: Email sent to all GCC Early Learning & Childcare settings re importance of IT security and Passwords.</p> <p>Officer Responsible for Implementation: Head of Resources</p> <p>Timescale for Implementation: 31 October 2019</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
2	<p>Although a record is held of nurseries that have completed the HMRC tax free childcare registration, the information held is incomplete, e.g. for seven nurseries, although they had completed the registration process, this had not been reflected in the record held. Furthermore, the main contact and delegate details were not recorded for some entries.</p> <p>Where a complete record of nursery registration details is not held, there is an increased risk that EDS are unable to confirm that the registration process has been completed correctly.</p>	EDS management should ensure that a complete record of nursery registration details is held for future reference. This should include the main contact and delegate details.	Medium	<p>Response: Record is in the process of being finalised and will be reviewed/amended as changes required.</p> <p>Officer Responsible for Implementation: Family Information Services Officer</p> <p>Timescale for Implementation: 31 December 2019</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Adequate information has been provided to parents/guardians in relation to tax free childcare.				
3	<p>To ensure parents / guardians advise the nursery of their HMRC payment reference number to allow for their payment to be matched against their childcare invoice, a poster was distributed to EDS establishments for display. Despite this, four of the five nurseries visited did not have the poster displayed.</p> <p>When parents / guardians do not inform nurseries of their unique payment reference, there is a risk that their tax free childcare payment may not be allocated correctly resulting in an unpaid balance arising.</p>	EDS management should issue an email to establishments reminding them of the importance of displaying the HMRC poster provided. A copy of the poster should be included in the email.	Low	<p>Response: Email issued to all GCC Early Learning & Childcare settings.</p> <p>Officer Responsible for Implementation: Family Information Services Officer</p> <p>Timescale for Implementation: 14 October 2019</p>