

GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION

COMMITTEE SUMMARY

Item 4(f)

7th August 2019

Title of the Audit: Education Services and Financial Services – Childcare Vouchers

1. Introduction

1.1 As part of the 2018/19 Audit Plan we have carried out an Internal Audit review of the receipt of childcare vouchers towards payment for Council early years provision charges. In 2018/19, approximately £885k worth of payments were received in the form of these vouchers.

1.2 Childcare voucher schemes are a Government initiative aimed at helping working parents to afford quality childcare. Numerous companies operate the schemes whereby parents/carers joined and opted to have a designated amount of money (up to £55 per week) deducted from their gross salary to pay for childcare charges; income tax and National Insurance is not paid on this sum. The value deducted is accumulated in an account held by the parent/carer with the voucher provider, with the parent/carer responsible for using these funds to pay for childcare charges. Financial Services Customer and Business Services (CBS) are responsible for the administration of childcare charging on behalf of Education Services.

1.3 As of October 2018, childcare voucher schemes were closed to new applicants, with only existing members allowed to continue to use and benefit from the scheme. From October 2018, the new Tax Free Childcare was introduced by Her Majesty's Revenue and Customs (HMRC). This is a similar scheme to childcare vouchers, however tax savings have been reduced and the scheme is operated directly by HMRC. This audit did not include the new HMRC Tax Free Childcare payments, as this will be subject to a future audit.

1.4 The scope of the audit was to gain assurance that Education Services and Financial Services have adequate processes and controls in place in relation to the receipt and allocation of funds received via childcare voucher schemes. The scope of the audit included:

- Reviewing all associated documented procedures, staff training and adherence to these.
- A walkthrough of the arrangements for acceptance of childcare vouchers as payment for early years provision.
- Reviewing a sample of childcare voucher 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.
- Confirming that arrangements are designed to prevent fraud or money laundering via this payment option.

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 two recommendations which management should address.

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3. Main Findings

- 3.1 We are pleased to report that key controls are in place and generally operating effectively. There are documented procedures held by the CBS Accounts Receivable (AR) team which outline their responsibilities in relation to childcare charging administration. Reconciliations between the AR account, main GCC bank account the cash receipting system are conducted on a weekly and period end basis by FS Ledger Control and Banking and full records of these are maintained in accordance with the Council's retention policy. Debt management arrangements are in place to identify and take action in respect of customers with outstanding childcare charges. Additionally, controls are in place to prevent, detect and identify any attempts made to take advantage of the childcare voucher scheme for tax benefit purposes.
- 3.2 Through sample testing of 20 childcare voucher payments received by the Council, we identified that in 19 instances the payment had been appropriately administered, invoices raised on customer accounts had been accurately cleared, and adequate records were maintained to support actions undertaken on customer accounts. From the one case in the sample where an error had occurred (where income had been coded to the wrong customer account), this had already been identified and corrected by a member of the team and we were satisfied that this was a result of a manual input error and not due to a weakness in the system or childcare charging process.

- 3.3 However, we also found some opportunities for improvement. While procedural documentation is held by the AR team, we identified that their Debt Recovery process note was not up-to-date at the time of audit fieldwork, and did not reflect current working practice. This has since been revised. In addition, the documented procedures supplied by FS Ledger Control and Banking did not fully outline the tasks that members of this team are required to undertake in respect of childcare payments that require manual intervention.
- 3.4 We also identified that albeit management checks are conducted by FS Ledger Control and Banking management on the movement of income from unidentified and unallocated income accounts, this is done so on an ad hoc basis only with no records retained to support the process.
- 3.5 An action plan is provided at section four outlining our observations, risks and recommendations. We have made two recommendations for improvement. The priority of the recommendation is:

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Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
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

- 3.6 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.7 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.8 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 (if appropriate)
Key Control: There are documented procedures in place and staff training, and these are adhered to by staff involved in the process.				
1	<p>Documented procedures are in place for FS Ledger Control and Banking, however we identified that these did not fully reflect all current processes.</p> <p>Staff within FS Ledger Control and Banking are responsible for allocating payments that are received by the Council, where insufficient details have been supplied to allow the SAP system to allocate these automatically to customer accounts. This involves the completion of various tasks to enable the team to obtain adequate information to allow a payment to be manually allocated to a customer's account.</p> <p>The current procedures did not fully detail the requirements of the team and outline all tasks that may need to be undertaken.</p> <p>The lack of up-to-date and detailed procedures increases the risk of inconsistent practices and errors being made by the Banking team.</p>	<p>FS management should conduct a review of the Banking team's documented procedures and guidance, and ensure that it covers all necessary parts of the process.</p>	<p>Low</p>	<p>Response:</p> <p>Procedures will be enhanced to include the detail of all checks carried out.</p> <p>Officer Responsible for Implementation:</p> <p>Team Supervisor, FS Ledger Control and Banking</p> <p>Timescale for Implementation:</p> <p>31st July 2019</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response (if appropriate)
Key Control: Adequate controls are present to minimise the risk of fraud, money laundering and misappropriation of funds.				
2	<p>There are system controls in place within SAP to prevent payments being allocated to wrong accounts. When a payment is made, it can only be automatically allocated to a customer account and invoice if the correct information is supplied in respect of that payment, i.e. the customer reference and invoice number. If sufficient information is not supplied, the system cannot allocate the payment and manual intervention is then required.</p> <p>However, we identified that for manual transactions there are no controls in place to prevent staff members from moving payments to and from different accounts, which can result in the type of error noted in paragraph 3.2.</p> <p>We were advised that the control to manage this is that management reviews are conducted by the Banking Team supervisor to ensure the accuracy of transactions made by members of the team, however these are only undertaken on an ad hoc basis and no records of checks made are retained.</p> <p>Failure to have a formal record of management checks in place increases the risk that errors or misappropriations may go undetected.</p>	<p>FS management should review and formalise the arrangements in respect of periodic management checks within the Banking team to ensure that manual allocations are made to the correct customer account.</p>	<p>Medium</p>	<p>Response:</p> <p>Periodic management checks will be documented</p> <p>Additional note: as part of the income maximisation project the volume of unallocated monies should reduce due to customer detail requirements.</p> <p>Officer Responsible for Implementation:</p> <p>Team Supervisor, FS Ledger Control and Banking</p> <p>Timescale for Implementation:</p> <p>31st July 2019</p>