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Assurance Services for the Public Sector

Adult Education Service

City of York Council

Internal Audit Report 2018/19

Business Unit: Children, Education and Communities Directorate
Responsible Officer: Assistant Director Communities and Equalities
Service Manager: Head of York Learning
Date Issued: 15/02/2019
Status: Final
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	P1	P2	P3
Actions	0	3	8
Overall Audit Opinion	Reasonable Assurance		

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Summary and Overall Conclusions

Introduction

Adult education services provided by York Learning are mostly funded by external contracts and fee income. The funding for the financial year 2018/19 is approximately £3.2m.

York Learning delivers a range of learning programmes to support people into employment, improve their skills and to support their personal development.

Courses are either provided internally or through partner organisations delivering part time or full time learning. The cost of the course depends on the length and if it leads to a qualification or employment. These courses may be fully or part funded through the Education and Skills Funding Agency, the Local Authority High Need Support funding, the Student Loans Company, grants, private companies and individuals.

Individuals completing courses funded through fee income may be entitled to concessionary or benefit related discounts

Objectives and Scope of the Audit

The objective of the audit was to provide assurance to management that procedures and controls within the system would ensure that:

- All fee income due is collected and discounts and refunds are correctly applied
- Apprenticeship funding is accurate and can be tracked by individual learner
- Payments to third party providers of courses funded from high needs learning support funding are accurate
- Subcontracts with lead contractors are managed effectively

The accuracy of payments made to third party providers of courses funded from High Needs Learning Support funding was reviewed during the High Needs (SEN) audit completed during 2017-18 and was therefore not reviewed as part of this audit.

Key Findings

Adult Education funding is a complex area with a number of different income steams. This audit looked at several of these income streams and found that the effectiveness of the controls in place for receiving and recording income collected by York Learning varied significantly depending on the income source.

The Yortime system is intended to consolidate basic student records and financial information received by the service. In practice, the lack of controls in place to check the quality and consistency of record keeping for students processed through the Yortime website meant it was not

possible to trace all income tested to individual learners through the system and therefore it could not be confirmed that all fee income was received or discounts and refunds given in accordance with York Learning's policies.

There was a lack of documented guidance available to employees on enrolling and processing income from self funding students and no clear framework for training provided on induction, resulting in a lack of consistency in the controls in place across the service for collecting income. The audit identified a breach of the council's Financial Regulations with regards to the frequency of banking cash and performance of regular reconciliations.

Apprenticeship funding claimed from the Education and Skills Funding Agency (ESFA) and students funded through the Student Loans Company tested during this audit was found to be accurate. However, there were weaknesses identified in some of the record keeping standards tested; which were largely mitigated by compensating controls such as the use of consistent, standardised forms across the service and the use of various auditing software to identify data entry errors and non-compliance with ESFA funding rules before submission.

It was found that invoices to non-levy paying apprenticeship employers for their contribution towards apprenticeship funding were not being raised in a timely manner and there was no procedure to confirm the payment of invoices prior to declaring the invoice paid to the ESFA during monthly submissions.

To ensure all claimed funding was received; reconciliations of claimed and actual income received from the ESFA and Student Loans Company were regularly completed, although no formal documented procedures were in place.

In relation to subcontracts York Learning has had some difficulty responding to changing submission standards for evidence of expenditure required by lead organisations for two contracts. No peer-reviewed quality controls could be identified for the process of submitting funding claims or bidding for subcontracts from lead providers.

During the audit, it was confirmed that on two occasion's subcontracts with lead contractors have had to be renegotiated when it has been identified the council is unable to meet the terms of the initial agreement, at a financial loss to the council. It was also found that income had not been claimed promptly for the subcontracts tested due to key staff unavailability. The system relies heavily on the professional expertise of the team responsible for managing these subcontracts. However, no contingency procedures could be identified during the audit should these key staff members leave or be unavailable.

Overall Conclusions

It was found that 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. Processing Course Fees

Issue/Control Weakness	Risk
The Yortime system is not used in a consistent manner and there is an inadequate audit trail for the payment of fees by self funding students.	Not all course fee income is collected and student information on the Yortime system is incorrect.

Findings

The Yortime system is designed to facilitate online booking and should provide a traceable audit trail of payments taken for community course fees (approximately 323K in fees was taken April18 to Aug 18). If a course is booked and paid for by phone or in person (rather than by the student on-line), manual input onto the Yortime system should be completed.

The majority of student transactions in the sample selected for testing were not recorded through the Yortime system. It was not possible to trace fee payments to student records for four out of the ten students sampled, using either the Yortime system or other income records. Student records that were on the Yortime system were often incorrect or out of date and it was not possible to provide assurance that York Learning is receiving all fee income for the courses it provides. A limited number of fee payments are made in cash (between April-December 2018 £8,775.90 was recorded as being taken across all centres); however, a clear audit trail is required in order for payment to be confirmed.

Although it is technically possible to track individual cash payments taken by York Learning to the general ledger, the high levels of data entry omissions or errors onto the Yortime system reduce the likelihood of this being feasible for individual students. As such, it is unlikely that any loss or irregularities in cash received will be noted within a sufficient time-frame to recover any lost income.

No formalised guidance is available to staff when processing income through the Yortime system. Although comprehensive training is provided at induction, this relies heavily on the experience of present staff members and risks key knowledge being lost. There is a reasonable process of informal review once the data is produced from the Yortime system. However, it is unlikely that transactions that have not been recorded or have been incorrectly recorded on the Yortime system will be challenged, unless the Curriculum Managers compare these records to attendance records.

York Learning is currently in the process of considering the procurement of alternatives to the Yortime System.

Agreed Action 1.1

Yortime records of all current students enrolled on York Learning courses will be reviewed	Priority	2

against current enrolment records to confirm all student records are up to date. A reminder will be sent to all relevant staff members ensuring staff members record all community course students and their payment details through the Yortime system. Processing notes will be made available to staff and the quality of records maintained on the Yortime website regularly reviewed.

Responsible Officer	Head of York Learning
Timescale	30 June 2019

2. Fee Discounts

Issue/Control Weakness	Risk
There are inconsistent processes in place for requesting, checking and recording evidence of entitlement to discounts, and it cannot be ensured that discount policy is being applied in a consistent manner.	Ineligible students are receiving discounted course fees.

Findings

From June to August 2018, 243 discounts were given worth £5,735.20 by York Learning.

It was found that the process of offering discounts did not match the terms and conditions recorded on the York Learning website, and the system of recording discounts is inconsistently applied. Eligibility is checked after the discount is given and may not be checked prior to a student starting the course. Conflicting record keeping standards and tracking of eligibility checks were identified.

Audit testing of a sample of discounts found for six out of ten students it was not possible to confirm whether evidence of entitlement to a discount was received, who reviewed it or when it was reviewed. Should a student query the decision to offer or withhold a discount, there may not be a suitably detailed audit trail in place.

Although training for processing discounts is available as part of the induction programme, this training was ad-hoc and informal and no other written guidance is given. Staff and management are aware of problems in interpreting universal credit claimants' evidence but no guidance has been produced yet.

Agreed Action 2.1

A review will be undertaken to reconsider the current terms and conditions for receiving a discount and how these discounts are processed by staff members. Appropriate written procedures will be developed from this review. In the interim, Yortime records of all current students receiving a discount will be reviewed against current enrolment records to confirm only eligible students are receiving discounted course fees. Reminders will also be sent all relevant staff members outlining the current process for issuing discounts.

Priority	2
Responsible Officer	Head of York Learning
Timescale	30 June 2019

3. Refunds of Fee Charges

Issue/Control Weakness	Risk
A complete record of refunds is not held on the Yortime system. Refund records are stored across various files, making it challenging to identify whether refunds have been given appropriately.	Refunds are not given fairly, in a consistent or timely manner and in accordance with refund policy.

Findings

£3,581.00 worth of refunds has been given by York Learning in 2018 to date (September 2018).

Audit testing of a sample of refunds from the in person card reader output found that eight out of ten refunds could not be identified with records on the Yortime system. Of the two refunds recorded on the Yortime system, both were below the minimum administration fee charged by York Learning to process the refund. This is allowed in exceptional circumstances, when a class has to be cancelled, but it could not be confirmed this was acceptable because no reason was given to explain why this was authorised.

At a minimum, the reason for the refund, along with the learner's details, the course details, payment method, date and payment value should be recorded in order to confirm whether the refunds match these policies. Where refunds are given in exceptional circumstances, it is especially important to record the reason for issuing the refund on the student's records in order to confirm they are being issued in a consistent manner.

Agreed Action 3.1

A written procedure outlining how to process refunds will be created in accordance with the refunds policy. This procedure should consolidate records into one document and ensure refunds can be traced, the reason recorded and that authorisation is given where necessary.

Priority	2
Responsible Officer	Head of York Learning
Timescale	30 June 2019

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4. Cash Handling Procedures

Issue/Control Weakness	Risk
Cash taken for course fees is not handled and stored in line with the council's cash handling procedure. Team members are unaware of the council's cash handling procedures and no service specific procedures have been approved or made available.	Cash may be misappropriated or not accounted for correctly. In the event of an insurance claim all income may not be covered.

Findings

The level of cash handling is relatively low and relates to a small percentage of community course fees. During the audit, it was identified that York Learning is technically in breach of the council's Financial Regulations with regards to the regularity of banking of cash and performance of regular reconciliations. There are no internal controls to ensure all staff members are following appropriate procedures with regards to taking cash payments. It was also found that there was a lack of awareness surrounding insurance limits for holding cash at each centre.

This was communicated at the time and it has been agreed with Internal Audit that cash may be stored beyond the next banking day provided it does not breach the cash storage limits of the receptacle it is stored in.

Agreed Action 4.1

An internal, service specific, written cash handling procedure will be developed to supplement the current council's cash handling procedures. The internal procedure will ensure reconciliations are performed and recorded each week and specify the regularity of banking. Training will ensure management are aware of the cash storage limits for insurance purposes and increase the regularity of banking if necessary. These procedures will be reviewed by Internal Audit before issue.

Priority	3
Responsible Officer	Head of York Learning
Timescale	30 June 2019

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5. Learner Loans

Issue/Control Weakness	Risk
Inconsistent completion of forms and reviews of attendance records are being conducted by tutors. The secondary system of checks completed by the audit software should identify any omissions; however, it will not identify if incorrect data has been submitted.	Learner Loan funded students attendance is incorrectly reported to the Student Loans Company and funding may be withdrawn.

Findings

In order for York Learning to claim funding from the Student Loans Company it is required that attendance of students is confirmed and notified through the SLC's Provider Portal.

A sample of students with learner loan funding was selected for testing. It was found that student contact attendance records were present for most students and matched those uploaded to the SLC's Provider Portal via the Maytas system. However, one student's records were missing and a few data entry errors were identified in the original files. Without a consistent review process in place for the primary data, there is a risk that incorrect attendance information may be submitted to the SLC, resulting in future financial claw-backs.

Agreed Action 5.1

Reminders have been issued to tutors asking that they fully complete and review student attendance records before sending them to the information management team to be uploaded to the provider portal.

Priority	3
Responsible Officer	Head of York Learning
Timescale	Implemented

6. Apprenticeship Funding – Non Levy Paying Employers

Issue/Control Weakness	Risk
There is no procedure in place to ensure York Learning is correctly declaring to the ESFA that all non-levy payments have been received by the service. The spreadsheet used to track the raising of invoices is inconsistently completed, with a backlog of invoices to be raised as of October 2018.	York Learning does not receive all mandatory financial contributions from non-levy paying employers it is entitled to and does not declare this to the Education and Skills Funding Agency, breaching the Apprenticeship funding and Performance-Management Rules for Training Providers (May 2017 to July 2018 Version 6).

Findings

York learning is required by the ESFA to invoice non-levy paying employers for mandatory financial contributions towards apprenticeship training and to confirm payment has been received.

Not all invoices for non-levy paying employers are being raised in a timely manner. The invoices that had been raised were for multiple small instalments; there seemed to be no identifiable reason for using this charging method. No evidence of non-payment was identified; however, there is no procedure in place to confirm payment has been received before the declaration of payment is provided to the ESFA every quarter via the Maytas system.

Although testing did not indicate any reporting breaches to the ESFA at present, there remains a significant risk that York Learning may breach their contract with the apprentice's employer and the ESFA if this is not resolved before the first round of apprentices become eligible for completion payments.

Agreed Action 6.1

Procedures have been established to inform the team responsible for maintaining the Maytas System should a non-levy paying employer fail to pay their financial contributions to York Learning so that the ESFA is informed. These procedures ensure the spreadsheet used to track invoices is regularly maintained and invoices are raised promptly. Consideration has been given to reviewing the current method of invoicing non-levy paying employers by instalments.	**Priority**	3
	Responsible Officer	Head of York Learning
	Timescale	Implemented

7. Education and Skills Funding Agency (ESFA) Remittance Reconciliations

Issue/Control Weakness	Risk
The completion of reconciliations of funding claimed to the ESFA remittance relies on the experience of key staff members, with no guidelines or training available should they leave the council.	York Learning does not receive all income it is entitled to.

Findings

Reconciliations of the expected and actual income received from the ESFA are regularly completed by York Learning in order to enable them to budget their service fully. Due to the complex processes involved in calculating the final income distributed by the ESFA, and the lack of detail in the remittances, there have been problems among further education providers in completing these reconciliations. Similar problems have been experienced by York Learning but discrepancies in the reconciliations carried out are rarely considered significant.

This reconciliation process was started as an ad-hoc, informal procedure by key staff members with no formalised guidelines in place. In the event key staff members leave the council, these reconciliations may not continue. There is also no review procedure in place to ensure the accuracy of the reconciliations being preformed, though during testing no inaccuracies were identified from the sample of reconciliations reviewed.

Agreed Action 7.1

A formalised procedure for the completion of reconciliations will be established to ensure they continue to be conducted. Ensuring this contains a written or other formalised process map so the reconciliations can be re-preformed and reviewed.	Priority	3
	Responsible Officer	Head of York Learning
	Timescale	30 June 2019

8. Apprenticeship Records and Checks

Issue/Control Weakness	Risk
Apprenticeship forms completed by tutors when students sign up for apprenticeships are not being reviewed to a consistent or high standard before being submitted to the administrative team for processing.	Ineligible applicants are allowed to start apprenticeship courses leading to incorrect funding being given to the service.

Findings

A number of errors and omissions in relation to eligibility checks were identified for a sample of student records tested which indicate there is inconsistency in data quality provided by tutors.

For a sample of five students, two students did not have adequate checks recorded for qualifications, three students lacked information on employment, NI numbers and proof of residency.

Auditing software provided by the ESFA should ensure these errors are identified and rectified before the final records are submitted and that York Learning is eventually reviewing all eligibility criteria for apprenticeships. However, this increases the administrative burden on the service and may delay the point at which York Learning receives income they are entitled to.

Agreed Action 8.1

A reminder has been issued to the apprenticeship team to ensure tutors are completing student's records fully and consistently.

Priority	3
Responsible Officer	Head of York Learning
Timescale	Implemented

9. Funding Claims for Subcontracts

Issue/Control Weakness	Risk
There is no policy or procedural guidance in place to detail what should be included in a grant claim to cover expenditure, or for peer-review before submission.	York Learning does not claim all income the service is entitled to. Payments are withheld because evidence of expenditure is not submitted to the required standards.

Findings

It is not possible to confirm whether York Learning is claiming all the grant income it is entitled to from the Action Towards Inclusion and Positive Progression Programmes.

Testing has indicated there are additional areas of grant funding that York Learning could claim, such as consumables, marketing and promotional material. A review of the cost of obtaining evidence to support expenditure that could be claimed under the contract against the benefit of claiming should be considered.

York Learning has had difficulty meeting the standards of evidence required by Your Consortium in their financial and academic returns in order to receive the expenditure claimed for the Action Towards Inclusion contract. Common issues identified were inadequate provision of eligibility evidence and inadequate completion of forms. Although the team were generally aware of the issues surrounding funding submission, their exact nature was not known and no attempts to resolve this situation have currently been developed at the time of this audit (October 2018).

Grant income has not been claimed due to staff unavailability and a subsequent lack of contingency procedures in place. Claims to cover the Positive Progression or the Working Wellness pilot (nil net cost contracts) were not made for two quarters due to staff absence, unbeknown to colleagues or senior management. There should be stronger contingency procedures in place to ensure income continues to be collected and any issues resolved within a reasonable timeframe.

Agreed Action 9.1

An internal review of the grant claims for all subcontracts will be undertaken to ensure all income streams that are financially viable are being claimed for. All grant claims will be subjected to a formalised peer-review process prior to submission to ensure they are made on a timely basis, are fully compliant with contract requirements and all requested evidence is available.	**Priority**	3
	Responsible Officer	Head of York Learning
	Timescale	30 June 2019

10. Document Retention for Subcontracts

Issue/Control Weakness	Risk
The council's document retention policy does not meet the retention requirements of the external auditors for the projects. Were the external auditors to visit this information would not necessarily be available.	Payments are withheld or clawed back because evidence of expenditure has been destroyed.

Findings

The DWP is the managing authority for the Action Towards Inclusion and Positive Progression Contracts held by York Learning. The DWP's Article 125 verification team reserves the right to review all submitted evidence for up to ten years after the end of the programme. However, the council's document retention policy requires that staffing records are held for only six years after an employee leaves. It was found that relevant employees had already left within the previous year, putting the council at risk of financial claw-backs of income claimed and reputational damage, should the external auditors visit within the next six to ten years and this issue has not been resolved.

During testing of the procedures in place, discussions with key members of staff identified that they were not aware of the council's documentary retention policy or the specific terms of the contracts that were being managed. Given that a current Article 125 verification audit is taking place and City of York Council has been selected for testing, it is essential these issues are resolved to prevent these risks materialising.

Agreed Action 10.1

An agreement will be reached with HR/Payroll to extend staffing record retention for Article 125 audited projects.	Priority	3
	Responsible Officer	Head of York Learning
	Timescale	30 June 2019

11. Bidding for Subcontracts

Issue/Control Weakness	Risk
There is no peer-review procedure in place to appraise bids for subcontracts prior to submission. York Learning has entered into contracts without discussions with the relevant departments to confirm all relevant expenditure is included and that evidence of expenditure the contracts require can be provided.	Financial loss on contracts entered into by York Learning.

Findings

One employee was found to be responsible for compiling all bids for contracts that York Learning submits, with no requirement for additional independent review in place. There have not been discussions with other departments within the council, regarding key financial elements of bids, until after the contracts have been agreed.

York Learning has entered into two contracts with terms that it appears it cannot easily meet, including the demonstration of defrayal of costs in one instance. The risk that penalties may be applied to the contracts remains unresolved as of October 2018.

Agreed Action 11.1

A peer-review process will be required for all bids prior to submission.

Priority	3
Responsible Officer	Head of York Learning
Timescale	30 June 2019

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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