

Final Internal Audit Report

CALAT Income Collection

October 2017

Distribution:

- Executive Director of Place (Final only)
- Director of Economic Growth
- Strategic Service Manager
- Funding and Performance Manager
- Funding Officer

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	4
	Priority 3	2

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality

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1. Introduction

- 1.1 Croydon Adult Learning and Training (CALAT) is a service provided by Croydon Council which allows adults to apply for over 500 part-time courses at three centres across the Borough - Croydon Clocktower; Strand House and New Addington.
- 1.2 Each of the centres cashes up daily and reconciles the till reports to the Unit-e system. Unit-e logs all learners that have registered that day at the centre and is the central point for all information relating to registered learners. Variances can occur where additional funds are received for non-course based sales such as books, USBs and additional resources. Any cash or cheques taken are stored in zip locked bags until these are collected and deposited at the Council by Contract Security Services.
- 1.3 Every month, the Business Support Officers for each centre send a summary of the daily cash takings for that month to the CALAT Finance Officer based at Bernard Weatherill House. The CALAT Finance Officer then reconciles all cash amounts to the Oracle system and all card amounts to the CALAT bank account.
- 1.4 The CALAT Service claims additional funding from the Skills Funding Agency and submits annual returns of the number of enrollers on courses as well as the number of successful learners to obtain the funding.
- 1.5. The objectives, methodology and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 2 Issues

The self-declaration form for learners to complete in order to receive fee exemptions did not include a 'fair processing' notice or a fraud declaration, **(Issue 1)**.

Examination of the payments due for a sample of ten learners found that one was not paid even though the course had been completed and two which had only been paid after the corresponding courses commenced, **(Issue 2)**.

Evidence that room hirer(s) possessed suitable insurance was not available for three out of the four room hires sampled, **(Issue 3)**.

The till report 'z' numbers were not being recorded or monitored, **(Issue 4)**.

Priority 3 issues are included under item 4 below.

3. Actions and Key Findings/Rationale

<u>Control Area 2: Income Collection</u>		Detailed Finding/Rational – Issue 1
Priority	Action Proposed by Management	
2	Amend learner recruitment documentation to include GDPR changes and requirement for fair use statement.	<p>The Data Protection Act 1998 (DPA) states that 'Personal data shall be processed fairly and lawfully and, in particular, shall not be processed unless (a) at least one of the conditions in Schedule 2 is met, and (b) in the case of sensitive personal data, at least one of the conditions in Schedule 3 is also met.' In this regard, the Council must be transparent about how it intends to use any data collected and any application forms in use should include a 'fair processing notice'. The General Data Protection Regulations (GDPR) will supersede the DPA in 2018 and will include additional requirements and stronger penalties.</p> <p>Examination of the self-declaration form that learners complete to receive fee exemptions on their course found that there was no 'fair processing' notice or fraud declaration detailed.</p> <p>Where appropriate declarations are not included on application forms, the Council may be unable to use the details provided for data matching to identify and reduce fraud. It is good practice and may reduce instances of fraud if the service user is aware that the data collected may be used for that purpose.</p>
Responsible officer		Deadline
Strategic Service Manager		2 nd October 2017

Priority	Action Proposed by Management	Detailed Finding/Rational – Issue 2
2	<p>Review CALAT's Financial Procedures document seeking Director level approval to exceptions to the Council's Income Procedure. Exceptions are likely to be required where adherence to the Council's general policy is not in the best interests of learners (they cannot afford 100% up-front payment) or where ESFA funding may be lost.</p> <p>Cascade revised Financial Procedures to business support and finance / monitoring officers.</p>	<p>The Councils Income Procedure states that 'Staff responsible for income collection must ensure that recovery procedures are followed, including legal action where necessary, for debts that are not paid promptly.' For CALAT, income should be received for classes taken by learners before the classes are due to start and in any cases where full payment is not received, appropriate action should be taken.</p> <p>Sample testing of ten instances where income was due for courses, identified:</p> <ul style="list-style-type: none"> • One case where the learner had set up a standing order, but had not made the scheduled payments. Although a message was put on the learner's account notifying that they may not re-enrol on another course until they have cleared their debt, they still finished the semi-paid for course; and • Two cases where the learners paid their course fees two and seven days respectively after their course had started. <p>Where fees are not collected for courses prior to the start date, a debt accrues and recovery action is required. Where students who have not paid for their courses are allowed to complete these courses, there is a risk that the debts may become irrecoverable.</p>
Responsible officer	Strategic Service Manager	
Deadline	2 nd October 2017	

Priority		Action Proposed by Management	Detailed Finding/Rational – Issue 3
2	Undertake a review of the Room Hire procedure and roll out to Business Support team leaders for implementation.		The Room Hire Terms and Conditions states that 'If the hirer hires a room/hall on a regular basis, then they should have their own public liability insurance to cover them and a copy must be held by the centre office'. Evidence that room hirer(s) possessed suitable insurance was not available for three out of the sample of four room hires sampled. Where evidence of hirers insurance is not obtained for room hire, there is a risk that the hirers do not in fact have suitable insurance and should an accident occur, the Council will have to cover the costs.
	Responsible officer	Deadline	
	Strategic Service Manager	30 th September 2017	

Control Area 3: <u>Daily Cash Up</u>	
Priority	Action Proposed by Management
2	Fields to be added to the Till Balance Report on Unit-E to ensure that this is incorporated into the daily banking reconciliation at the centres.
	<p>The 'Z Report' is designed to end the shift and stop taking sales on a particular till. This process also clears the income totals. Each 'Z Report' will be consecutively numbered and these numbers should be monitored to ensure that no cash ups (and corresponding takings) are missing.</p> <p>Testing of the daily cash up reconciliations identified the till 'Z Report' numbers were not being recorded and thus not being monitored.</p> <p>Where 'Z Report' numbers are not monitored to ensure that these are consecutive, there is a risk that missing cash ups (and corresponding takings) may not be identified.</p>
Responsible officer	Deadline
Strategic Service Manager	30 th September 2017

4. Priority 3 Issues

Action Proposed by Management	Findings
<p>a) Unit-e learner record to be amended to ensure that there is space for letter storage / other confirmation of letter and refund</p>	<p>Where refunds are issued to learners, these learners are required to be provided with a letter outlining the refund and the method of payment.</p> <p>Although examples of refund letters were seen, there is no record of which refund requesters had been sent a refund letter.</p> <p>Where confirmation that a refund letter has been sent is not retained, there is a risk that the letter was not sent. Furthermore, in the event of query there is a lack of audit trail.</p>
<p>b) Review CALAT's Financial Procedures document. Cascade revised Financial Procedures to business support and finance / monitoring officers.</p>	<p>The Council's Income Procedures require that 'Income is paid fully and promptly into the appropriate Council bank account in the form in which it is received. Appropriate details should be recorded on to paying-in slips to provide an audit trail'.</p> <p>Testing of the daily cash up reconciliations for a sample of 12 days identified that on 11 January 2017 at the Croydon Clocktower, there was a discrepancy. Although the reason for this was explained and confirmed by the auditor, this reasoning was not recorded anywhere on the reconciliation sheet.</p> <p>Where variations found during reconciliations are not clearly defined, there is a risk of officers being unable to easily identify reasons for variations in the monthly reconciliations.</p>

TERMS OF REFERENCE

CALAT Income Collection

1. INTRODUCTION

- 1.1 Croydon Adult Learning and Training (CALAT) offer over 500 part-time courses at three centres across the Borough - Croydon Clocktower; Strand House and New Addington.
- 1.2 CALAT'S aim is to enrich the lives of adults of all ages, abilities and background enabling them to reach their full potential through learning and education.
- 1.3 Learners can pay for their education by either credit card, debit card or by standing order. If they have a low income, they may apply for a Discretionary Learner Support Fund to help with fee payments.
- 1.4 People over the age of 19 wishing to study for a Level 3 Certification are eligible to apply for a loan for their course fees, which does not have to be paid back until they are earning over £21,000 per annum.
- 1.5 As part of the agreed 2017/18 Internal Audit Plan, an internal audit of CALAT - Income Collection was identified to be undertaken.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
 - Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls; and
 - Report on these accordingly.

3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	0	0	0
Income Collection	0	3	1
Daily Cash Up	0	1	1
Banking	0	0	0
Monitoring and Reporting	0	0	0
Total	0	4	2

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, adequacy and effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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