

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	11 May 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2312 – Scottish Milk and Healthy Snack Scheme
REPORT NUMBER	IA/AC2312
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Scottish Milk and Healthy Snack Scheme

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Scottish Milk and Healthy Snack Scheme.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2312 – Scottish Milk and Healthy Snack Scheme

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Scottish Milk and Healthy Snack Scheme

Status: Final
Date: 20 April 2023
Risk Level: Cluster

Report No: AC2312
Assurance Year: 2022-23

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	18-Jan-23	18-Jan-23
Scope agreed	24-Jan-23	23-Jan-23
Fieldwork commenced	20-Feb-23	20-Feb-23
Fieldwork completed	17-Mar-23	27-Mar-23
Draft report issued	31-Mar-23	31-Mar-23
Process owner response	21-Apr-23	20-Apr-23
Director response	28-Apr-23	20-Apr-23
Final report issued	05-May-23	20-Apr-23
Audit Committee	11-May-23	

Distribution	
Document type	Assurance Report
Director	Eleanor Sheppard, Interim Director Children's & Family Services
Process Owner	Louise Beaton – Service Manager
Stakeholder	Shona Milne, Interim Chief Education Officer
	Mark Duguid, Out of School Care Manager (Strategic)
	Vikki Cuthbert, Interim Chief Officer – Governance*
	Jonathan Belford, Chief Officer - Finance*
Final only	External Audit
Lead auditor	Graeme Flood, Auditor

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1 Introduction

1.1 Area subject to review

The Scottish Government introduced a scheme, known as the Scottish Milk and Healthy Snack Scheme (“the scheme” or “SMHSS”), in Scotland to replace the UK Nursery Milk Scheme (NMS), under the Milk and Healthy Snack Scheme (Scotland) Regulations 2021 as amended (“the Regulations”). Payments were made under the new Scheme from 1 August 2021. The SMHSS funds a daily portion of plain fresh cow’s milk (or specified alternative) and a healthy snack (fruit or vegetables) for pre-school children spending two hours or more in the care of a regulated day care provider and/or childminder, at the rate of 58.2p per child per day. It aims to ensure that as many pre-school children in day care as possible will receive a daily serving of milk and a healthy snack to support the development of healthy eating habits for later life.

Early Learning and Childcare (ELC) settings or childminders may apply to the local authority to register for the Scheme where they:

- Provide pre-school care to children for 2 hours or more per day.
- Are registered with the Care Inspectorate.
- The ELC Setting or childminder is based in Aberdeen City.

Organisations operating multiple ELC settings will have to register for each individual setting.

Registered settings will receive upfront payments based upon the anticipated cost of provision via local authorities, enabling them to provide the specified benefits. The Scottish Government will fund the Scheme, distributing an upfront grant payment to each local authority at the beginning of the financial year, with a reconciliation at the end of the year, with associated balancing payment / recovery of surplus, based on actual provision.

The Scheme is available to all regulated settings offering pre-school day care, regardless of whether they are in receipt of ELC funding. Registration for all eligible ELC settings or childminders should take place by 1 August of the preceding academic year. Registrations after this date will be accepted with any eligible payments backdated to the date registration is received. Once a setting has registered for the Scheme, it is expected that this registration will remain valid unless and until the setting confirms in writing or electronically to the Council that it wishes to withdraw from the Scheme.

Under the new Scheme there will not be a requirement for settings to provide proof of purchase prior to payment i.e. receipts, invoices, contracts, although they will be asked to retain these, in case they should be selected for monitoring by their local authority. The Scheme will run annually from 1 August to 31 July. This period will be known as the Scheme year.

1.2 Rationale for review

The objective of this audit is to obtain assurance that payments under the scheme are being appropriately managed.

Since the beginning of the scheme Aberdeen City Council have made payments totalling £103,569 to 88 third party providers and £116,851 to 52 internal providers. The ring fenced grant is received from the Scottish Government at the beginning of the financial year based on estimated pupil numbers for the coming school year. For the financial year 2021-22 the Scottish Government provided funding totalling £223k and for 2022/23 funding of £520k.

This review has been included in the agreed 2022/23 Internal Audit plan since it is a new process, which if inadequately controlled, could result in under or overpayment to third party providers, or misstatement of annual returns to the Scottish Government with associated balancing payment errors, risking achievement of Best Value, financial loss and / or reputational damage to the Council.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Cluster	This issue/ risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to be providing **REASONABLE** assurance over the Council's approach to the Scottish Milk and Healthy Snack Scheme.

Setting registrations for the scheme are adequately controlled by the Early Years team using a Firmstep Forms based registration system, which establishes the necessary information, including Care Inspectorate service number details, as well as the necessary serving data.

The registration process requires the submission of the Care Inspectorate registration certificate, and this was present for all the registered providers.

Calculations to arrive at the payments to be made using the data submitted were tested for the period 1 August 2021 to 28 February 2023 and with the exception of one minor difference any variations could be supported by the Early Years team.

Submission of the required returns to the Scottish Government with the details of the registered settings both external and internal along with the number of eligible children were undertaken on time. The submission of the year one figures resulted in an extra grant contribution from the Scottish Government of £18k due to higher numbers than had been used by the Scottish Government to arrive at the year one grant.

However, the review identified areas for improvement where enhancements could be made to strengthen the framework of control, specifically:

- **Written procedures** – Currently written procedures are not formalised for Council specific SMHSS administration processes, including registration, payment calculation and approval and quality assurance. This increases the risk of admin inefficiency and business continuity issues.
- **Timeous Payments** - Nine payments for providers who registered after the initial start of the scheme were made more than the statutory four-week payment deadline following registration. This risks reputational damage for the Council.
- **Monitoring** – The Council does not currently undertake monitoring of attendance records, delivery of benefits and purchase records as permitted by statutory guidance. Risk based monitoring would help to reduce the risk of overpayment and ensure adequate scheme delivery at a setting level.
- **Reconciliation of Scottish Government grant to actual entitlement** – Statutory guidance requires SMHSS reconciling payments for registered day care settings to be calculated based on actual servings. *Whilst external provider payments are reconciled to actual serving data, this is not done for its internal settings. Also, the Council does not reconcile the grant received*

against the grant owed based on actual servings at all settings, including internal Council settings. This increases the risk reconciliation payment funding, based on actual servings, will not be obtained from the Scottish Government where owed.

Recommendations have been made to address the above points, including formalising written procedures; reviewing in-year registration processes to ensure timely payment, introducing a system of risk based on-site monitoring and establishing a system of funding / payment reconciliation based on actual servings to ensure internal setting recoveries are accurate and any Scottish Government funding owed is recovered.

2.3 Severe or major issues / risks

No severe or major issues/risks were identified as part of this review.

2.4 Management response

I can confirm that the Internal Audit Assurance Review of the Scottish Milk and Healthy Snack Scheme (SMHSS) is factually accurate and we agree with the ratings, assessments and recommendations contained within the report.

We have implemented a new Scottish Government Scheme for the benefit of pre-school age children via internal and external Early Learning and Childcare providers in Aberdeen City. We have established local processes, in collaboration with Finance and ICT colleagues, based on national guidance and we have reviewed and refined these over the past 2 years to improve our systems and ultimately delivery of the Scheme.

We are pleased that the review has found that our systems are working and that there is a generally sound system of governance, risk management and control in place. We also welcome the recommendations for further refinement of processes to improve delivery of the Scheme and to importantly maximise available resources locally.

In terms of the recommendations, we have created new written guidance which is almost complete and the Service Manager – Early Years will work with Finance colleagues and internal settings to ensure that recoveries are accurate and best value is achieved. This has already commenced.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Minor
1.1	<p>Written policies and procedures – Comprehensive written policies and procedures and their effective communication are an essential element in any system of control. They are beneficial for the training of current and new employees and provide management with assurance correct and consistent instructions are available, especially in the event of an experienced employee being absent or leaving.</p> <p>The Scottish Government has issued statutory guidance for the scheme, and this includes the responsibilities of providers and local authorities. Early Years advised this forms the basis of the administration of the scheme by the Council.</p> <p>Early Years has published guidance notes on the Council’s website providing the third-party providers with the details required to complete the registration process and submission of data detailing provision of the snack and milk provided.</p> <p>However, the Council has a specific methodology for undertaking the registration process using a Firmstep Forms based application form, for calculating payments due to third party providers, and how to deal with any overpayments at the end of each scheme year.</p> <p>These processes are not formalised in written procedures risking, admin inefficiency and business continuity issues, if key personnel involved in scheme administration are absent.</p>		
IA Recommended Mitigating Actions			
Early Years should formalise all Council specific Scottish Milk and Healthy Snack Scheme administration processes, including registration, payment calculation and approval and quality assurance processes.			
Management Actions to Address Issues/Risks			
<i>The Firmstep administration process has now been collated within a single document (Guidance Document). This covers registration, processing an ACC Creditors Number, payment calculation, checking and approval. This document will support business continuity and allow for New/Temporary staff to administer The Scottish Milk & Healthy Snack Scheme should staff be absent.</i>			
Risk Agreed	Person(s)	Due Date	
Yes	Service Manager – Early Years	31 May 2023	

Ref	Description	Risk Rating	Moderate
1.2	<p>Payments to external providers – The Council received funding for 1 August 2021 to 31 March 2022 based on a combined serving rate of 34.7p and funding for 1 April 2022 to 31 March 2023 based on a combined serving rate of 58.2p.</p> <p>Early Learning split the school year down into three data collection/payment periods. These are based on the start/finish of a school year but can easily be applied to the financial year. The periods are:</p> <ul style="list-style-type: none"> • Period 1 –1 August - 31 December • Period 2 – 1 January - 31 March • Period 3 –1 April - 31 July 		

Ref	Description	Risk Rating	Moderate
	<p>When providers first registered, they were required to submit estimated servings based on the number of pupils, their attendance during the week and the number of weeks in the period. This provided the initial prepayment for period 1.</p> <p>At the end of period 1 the providers were required to submit an estimate for period 2 along with the actual number of serving provided in period 1. The difference between the period 1 estimate and the period 1 actuals was then applied to the estimate for period 2 to arrive at the prepayment made for period 2. This is then repeated through subsequent periods and scheme years.</p> <p>The data is input to spreadsheets to apply the appropriate serving rate and calculate the payment due to each provider, or recovery should they be overpaid and withdraw from the scheme.</p> <p>Internal Audit tested the calculations recorded in the spreadsheets (840 calculations) to ensure the formulae correctly arrived at the payments due to the providers. Initial differences were explained by the Service through providing further data from other spreadsheets.</p> <p>The payments made for the period 1 July 2021 – 28 February 2023 (371 payments to 88 providers totalling £391,254) were tested to the supporting data within the audited spreadsheets to ensure the data had been correctly processed through the Council payment system. With the exception of one minor error all payments could eventually be reconciled.</p> <p>Section 8 of the scheme statutory guidance on 'In-year registration' states:</p> <p><i>"Once a childcare provider registers for the Scheme, payment must be made within 4 weeks of the date of registration. Payment should normally be back-dated no further than the date of registration"</i>.</p> <p>Nine third party providers registered for the scheme after the July 2021 initial registration period for year one. The dates of the first payment were ascertained and compared to the registration date. None made the 4-week deadline with the nearest being 4.28 weeks the longest 23 weeks.</p> <p>Failure to meet the guidance timescale could result in financial pressure on the third-party provider and possible reputational damage should they complain.</p>		
	IA Recommended Mitigating Actions		
	<p>Early Years should review the payment process for new registrations and ascertain what is causing the statutory payment timeline to be missed, taking corrective action where appropriate.</p>		
	Management Actions to Address Issues/Risks		
	<p><i>We acknowledge that in the past we have missed the 4-week deadline with 7 of the external providers. This was due to rolling the payment over to the next set of payments. This is something that we no longer do.</i></p> <p><i>The service provider who appeared to wait 23 weeks for their first payment (although still late in receiving her payment due to holding on for the next run of payments) the customer did not return their FST99 Form until the 28 March 2022. Customers are made aware that this could cause a delay in payment, due to the creditors process. When we received the completed form we had already asked service users to submit their next round of figures for Term 2 actual and Term 3 estimated payments in order to process April payments, hence the rollover period.</i></p> <p><i>The Nursery SMHSS Team sent payment to Finance on Wednesday 20/07/2022 but payment did not clear until Saturday 23/07/2022 falling just over the 4-week period.</i></p>		

Ref	Description	Risk Rating	Moderate
	<p><i>For Another facility, due to incomplete information in the registration process, the registration was not fully completed until the 14/07/2022. We did not receive a correctly completed FST99 Form from the customer until 14/07/2022. The customer then received payment within 6 days.</i></p> <p><i>We can confirm that there have been no complaints regarding a delay in payment. As we communicate regularly with external providers and where a delay has been caused within the process this has been clearly communicated to the customer. However, we will ensure steps are taken to ensure the 4-week timescale is met going forward.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Service Manager – Early Years	31 May 2023

Ref	Description	Risk Rating	Minor
1.3	<p>Monitoring – As set out in the scheme regulations, the information that a local authority can obtain from settings for monitoring purposes is as follows:</p> <ul style="list-style-type: none"> • Its status as a childcare provider under regulation 4 (Care Inspectorate registration). • The number of eligible children enrolled with the childcare provider during any period. • Records of attendance in relation to any eligible child during any period. • The eligibility of a child under regulation 3 (pre-school child and receives a service from a childcare provider). • The entitlement of a child under regulation 5 (child receives service from childcare provider for 2 or more hours per day). • The benefit provided or expected to be provided to a child under regulation 6 (the records of milk and healthy snack servings). <p>In addition, statutory guidance states:</p> <p><i>“At a local authority level, appropriate monitoring remains important and must be proportionate to the risks involved and align with the systems that local authorities already have in place...In line with usual records keeping practice, settings will be asked to maintain receipts and records of purchase which may be requested by the local authority”.</i></p> <p>Most of the above information is obtained via the annual registration process. In addition, the Service advised 10% of external providers were audited after the first year, by being asked to submit receipts showing purchases of milk and healthy snack, along with daily attendance registers for the chosen term (term August – December). These details were then checked against updated details on Firmstep (External) and SEEMiS for registered children (Internal).</p> <p>However currently there is no check of delivery of benefit.</p> <p>Whilst this is not a statutory requirement, statutory guidance enables this monitoring to take place, which may reduce the risk of inadequate delivery of scheme benefits by Council partners.</p>		
	IA Recommended Mitigating Actions		
	Early Years should establish a system of risk based on-site monitoring to gain additional assurance as appropriate over the delivery of scheme benefits and payments made.		
	Management Actions to Address Issues/Risks		

Ref	Description	Risk Rating	Minor
	<i>We will establish a system for on-site monitoring to gain additional assurance over the delivery of the Scheme.</i>		
	Risk Agreed	Person(s)	Due Date
	Yes	Service Manager – Early Years	30 September 2023

Ref	Description	Risk Rating	Moderate
1.4	<p>Reconciliation of grant to actual entitlement – The Council receives grant funding for the delivery of the Scottish Nursery Milk and Health Snack Scheme from the Scottish Government in advance. For the period 1 August 2021 to 31 March 2022 the Scottish Government awarded funding of £223k on 4 June 2021 to the Council and subsequently £520k on 14 April 2022 for 1 April 2022 to 31 March 2023. This is based on a 70% allocation of the overall ‘quantum’ to deliver 175 days per child and the respective flat rates per combined serving of milk and healthy snack (2021/22 – 34.7p; 2022/23 – 58.2p).</p> <p>Since funding requirements are estimated by the Scottish Government based on a 70% uptake, it is necessary to establish actual grant entitlement based on numbers of servings to avoid loss of grant the Council is entitled to.</p> <p>Whilst external provider payments are reconciled to actual payments owed on an ongoing basis, currently there is no reconciliation process of total grant funding awarded to total actual entitlement for all providers i.e. internal as well as external providers.</p> <p>Based on the grant received for 1 August 2021 – 31 March 2022 (£223k) less admin contribution (£22k) the Council received £201k for external and internal provision of milk and healthy snack. External payments for the period 1 August 2021 – 31 March 2022 totalled £107k. The Council received an extra grant contribution for this period based on the scheme registration return submitted to the Scottish Government of £18k.</p> <p>This therefore left £112k to cover internal servings between 1 August 2021 and 31 March 2022. Working with the estimates of internal setting servings held by the Service there was an estimated under-recovery of £28k since funding entitlement for internal settings was estimated as £140k for this period.</p> <p>Actual costs for milk and snacks (not funding entitlement) incurred by Early Learning based on the financial ledger, came to £55k for this period, meaning actual costs were more than twice covered by funding made available.</p> <p>However, regardless, in the absence of a system of reconciliation of actual funding entitlement based on actual servings to funding received, there is a greater chance the Council will miss out on funding they are entitled to, as indicated by estimated servings for 2021/22.</p>		
	IA Recommended Mitigating Actions		
	Early Years should reconcile grant funding received to grant funding owed for each funded period using actual serving data for both internal and external providers and the relevant combined serving rate(s).		
	Management Actions to Address Issues/Risks		
	<i>The information can be reconciled by using daily registration data rather than attendance records. These records can currently be obtained from both internal and external service providers. External service providers currently update these figures three times a year through Firmstep, with internal data currently being obtained annually from SEEMiS. Moving</i>		

Ref	Description	Risk Rating	Moderate
	<p><i>forward individual internal settings will be requested to provide internal registers containing the same information currently provided by external providers.</i></p> <p><i>Whilst financial guidance and procedures have been shared with all internal ELC providers, more detailed work is now underway to ensure that the coding of milk and healthy snack spend is improved, thus resources maximised and best value achieved.</i></p>		
	<p>Risk Agreed</p> <p>Yes</p>	<p>Person(s)</p> <p>Service Manager – Early Years</p>	<p>Due Date</p> <p>30 September 2023</p>

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

The Scottish Government introduced a scheme, known as the Scottish Milk and Healthy Snack Scheme (“the scheme” or “SMHSS”), in Scotland to replace the UK Nursery Milk Scheme (NMS), under the Milk and Healthy Snack Scheme (Scotland) Regulations 2021 as amended (“the Regulations”). Payments were made under the new Scheme from 1 August 2021. The SMHSS funds a daily portion of plain fresh cow’s milk (or specified alternative) and a healthy snack (fruit or vegetables) for pre-school children spending two hours or more in the care of a regulated day care provider and/or childminder, at the rate of 58.2p per child per day. It aims to ensure that as many pre-school children in day care as possible will receive a daily serving of milk and a healthy snack to support the development of healthy eating habits for later life.

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- Provide pre-school care to children for 2 hours or more per day.
- Are registered with the Care Inspectorate.
- The ELC Setting or childminder is based in Aberdeen City.

Organisations operating multiple ELC settings will have to register for each individual setting.

Registered settings will receive upfront payments based upon the anticipated cost of provision via local authorities, enabling them to provide the specified benefits. The Scottish Government will fund the Scheme, distributing an upfront grant payment to each local authority at the beginning of the financial year, with a reconciliation at the end of the year, with associated balancing payment / recovery of surplus, based on actual provision.

The Scheme is available to all regulated settings offering pre-school day care, regardless of whether they are in receipt of ELC funding. Registration for all eligible ELC settings or childminders should take place by 1 August of the preceding academic year. Registrations after this date will be accepted with any eligible payments backdated to the date registration is received. Once a setting has registered for the Scheme, it is expected that this registration will remain valid unless and until the setting confirms in writing or electronically to the Council that it wishes to withdraw from the Scheme.

Under the new Scheme there will not be a requirement for settings to provide proof of purchase prior to payment i.e. receipts, invoices, contracts, although they will be asked to retain these, in case they should be selected for monitoring by their local authority. The Scheme will run annually from 1 August to 31 July. This period will be known as the Scheme year.

5.2 Rationale for review

The objective of this audit is to obtain assurance that payments under the scheme are being appropriately managed.

Since the beginning of the scheme Aberdeen City Council have made payments totalling £103,569 to 88 third party providers and £116,851 to 52 internal providers. The ring fenced grant is received from the Scottish Government at the beginning of the financial year based on estimated pupil numbers for the coming school year. For the financial year 2021-22 the Scottish Government provided funding totalling £223k and for 2022/23 funding of £520k.

This review has been included in the agreed 2022/23 Internal Audit plan since it is a new process, which if inadequately controlled, could result in under or overpayment to third party providers, or misstatement of annual returns to the Scottish Government with associated balancing payment errors, risking achievement of Best Value, financial loss and / or reputational damage to the Council.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the Cluster level.
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered during the visits are:

- Written Procedures
- Third Party Provider Applications and Payments
- Internal Provider Reimbursement
- Reconciliation of actual “spend” to grant received from the Scottish Government
- Annual reporting to Scottish Government

5.4 Methodology

This review will be undertaken through reviewing the application and verification of pupil numbers process and sample testing the calculation of the payments due to third party and internal provider. It will also ensure a robust process is in place to reconcile actual expenditure to Scottish Government monies received. To support our work, we will review relevant legislation, codes of practice, policies, procedures, and guidance.

5.5 IA outputs

The IA outputs from this review will be:

- School level memos detailing the findings of the visit and any areas for improvement.
- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 1.7 below)
 - Audit, Risk and Scrutiny Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Graeme Flood, Auditor (**audit lead**)
- Andrew Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Council key contacts

The key contacts for this review across the Council are:

- Eleanor Sheppard, Interim Director Children’s & Family Services
- Shona Milne, Interim Chief Education Officer
- Louise Beaton, Service Manager (Process owner)
- Mark Duguid, Out of School Care Manager (Strategic)

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	18/01/23
Scope agreed	24/01/23
Fieldwork commences	20/02/23
Fieldwork completed	17/03/23
Draft report issued	31/03/23
Process owner response	21/04/23
Director response	28/04/23
Final report issued	05/05/23