

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	11 September 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2605 – Early Learning and Childcare Setting Visits
REPORT NUMBER	IA/AC2605
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 Early Learning and Childcare Setting Visits

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 Early Learning and Childcare Setting Visits.

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

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- 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 AC2605 – Early Learning and Childcare Setting Visits

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Early Learning and Childcare Setting Visits

Status: Final

Date: 13 August 2025

Risk Level: Cluster

Report No: AC2605

Assurance Year: 2025/26

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	29-May-25	28-May-25
Scope agreed	05-Jun-25	03-Jun-25
Fieldwork commenced	16-Jun-25	16-Jun-25
Fieldwork completed	04-Jul-25	02-Jul-25
Draft report issued	25-Jul-25	22-Jul-25
Process owner response	15-Aug-25	12-Aug-25
Director response	22-Aug-25	13-Aug-25
Final report issued	29-Aug-25	13-Aug-25
AR&S Committee	11-Sep-25	

Distribution	
Document type	Assurance Report
Director	Eleanor Sheppard, Executive Director – Families and Communities
Process Owner	Louise Beaton, Service Manager – Early Years Fiona Lawrie, Early Years Manager
Stakeholder	Shona Milne, Chief Officer – Education and Lifelong Learning
	Caroline Johnstone, Quality Improvement Manager
	Emma Douglas, Head Teacher, Abbotswell School
	Mark Evans, Head Teacher, Cornhill School
	Moir Maciver, Head Teacher, Kingswells School
	Karla Mennie, Early Years Manager, Duthie Park and Hazlehead ELC Settings
	Lara Macrae, Early Years Manager, Links ELC
	Jonathan Belford, Chief Officer – Finance*
	External Audit*
*Final only	
Lead auditor	Graeme Flood, Auditor

1 Introduction

1.1 Area subject to review

As at 26 May 2025, Aberdeen City Council has 50 Early Learning and Childcare settings (three of which are not attached to a specific primary school). These establishments employ 477 salaried staff (375 FTE), while a further 109 relief workers engaged via the Relief Pool were paid in April 2025, teaching approximately 3,100 pupils. For the financial year 2025/26 they have a combined budget of £16.74m and under the Devolved School Management Policy, approximately 72% of this budget is managed directly at the school level by the Head Teacher.

As well as Council budget provision, nurseries may generate their own funds through various means that are managed through the Primary school's standalone bank accounts held in each school's name with the responsibility for their management and financial control resting with the Head Teacher and the operational management with the school administrator. Turnover within these accounts can, for larger establishments, exceed five figures. The school fund should have a written constitution detailing the roles and responsibilities of staff as well as the uses to which the funds can be made.

1.2 Rationale for review

The objective of this audit is to ensure establishments have adequate procedures in place to manage the financial aspects of the establishment and comply with the Council's Financial Regulations.

This area has not been subject to review previously. Primary Schools are managing financial transactions outwith the Council's centralised financial controls, to which Nurseries may contribute. With online and cash transactions being processed through standalone bank accounts and financial spreadsheets, it is essential a system of independent review is undertaken.

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 risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over compliance with Financial Regulations and the management of the financial aspects of Early Learning and Childcare settings.

The Council's Scheme of Governance, the Financial Services staff intranet SharePoint page, and related Schools Finance SharePoint page adequately define policy and expectations in relation to the management of nursery finances.

Purchase orders had been raised as required for expenditure at nurseries visited, and supporting documentation was present for all transactions through the purchase card process. None of the settings collected any income or handled cash in any format. Milk and Healthy Snack scheme data is being provided as required.

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

- **Guidance and Training** – The errors/omissions detailed in this report below could have been avoided via compliance with existing corporate/education policies and procedures available in various locations on the Council's intranet. However, when issues were highlighted to the staff involved, they indicated that they were not aware of the related requirements. Where staff are inadequately trained this risks poor financial control and Best Value. The development of the administrator's handbook should help mitigate this risk.
- **School Funds** – The three standalone Early Learning and Childcare settings had no separate bank accounts, with all current expenditure funded through Council DSM budgets, however the three primary schools with attached nurseries had a school fund, which was available for funding resources for the whole school including the nursery. Of the three schools with a school fund, two (66%) did not have a school fund constitution prescribing permitted use of the school fund and authorisation requirements. One (33%) school fund was not maintaining a cash book to fully support the income and expenditure transactions undertaken. It did not provide a running balance of the fund's balance, and did not provide a recognisable bank reconciliation process for the Head Teacher to review. None (100%) of the schools had activity set up forms detailing the reason for the different activity balances being held in the school fund and the authorised signatories. In addition, one (33%) school had approximately £80 of unsupported cash held in the safe. Collectively, these issues risk poor financial control, unauthorised expenditure, the achievement of Best Value, allegations of misappropriation of funds, and reputational damage.

- **Purchase cards** – In breach of the Council's Purchase Card guidance a setting visited was retaining their purchase card in an unsecured public location, along with the PIN number. They were also allowing staff, other than the card holder to remove the card to make purchases, using a card sign in/out sheet. Failure to comply with the corporate guidance in this manner risks theft of the card and fraud, unauthorised and inappropriate spend, financial loss and reputational damage. In addition, two of the schools (33%) were not uploading the receipts relating to the spend made on the card, as required by the purchase card guidance. However, in each instance the hard copy of the receipt was available at the school and had been reviewed by the approver. Both card reviewers who updated the purchase card system indicated they were unaware of the requirement and will adhere to requirements in future.
- **Payroll** – All settings were receiving monthly staff monitoring reports from the Payroll Team, detailing the staff being charged to the setting, both permanent and relief. These reports were being checked to confirm that only the correct staff working at the location were being costed there, and that any relief hours being paid reconciled to the timesheets submitted. Testing of payments made highlighted a member of staff who had received an overtime payment of £765, the only such payment across all Early Learning and Childcare settings. The payment was not approved by the school and the Payroll Team confirmed it as a processing error within the Business Support Team. This was not detected by the budget holder at the time.. The monthly staff monitoring reports could be improved to emphasise the guidance / instructions to budget holders to check all payments included within the report to prevent future overpayments going undetected.
- **VAT** – Schools receive commission for facilitating school pupil photographs being taken. Under HMRC rules the commission is deemed as standard rated and therefore the Council must repay the 20% VAT element included in the commission received. One school paid the commission into their school fund and has never paid over the VAT element. The School Administrator indicated they were unaware of the requirement despite it being covered in school VAT guidance held on the Council's intranet, and that VAT for photo commission had not been accounted for during her 15-year tenure. The school are liaising with Finance to reimburse approximately £400 VAT due for the current and previous three financial years (in line with VAT regulations). A follow up review of income processed through the Councils financial ledger identified VAT commission transactions for 11 schools. This could indicate that the remaining schools are not correctly accounting for VAT or are receiving no commission. In relation to expenditure, where a Council location purchases standard rated supplies or services for the school, they can recover the VAT element, therefore reducing the cost to their budget. Instances were found at two (33%) of the settings where standard rated expenditure had been processed through the school fund. By processing the expenditure through the school fund, they were unable to recover the VAT element, approximately £300, a financial loss for the school, parents and pupils, where expenditure could instead be incurred via the school's per capita net of VAT.

Collectively the financial risks highlighted risk of financial loss, lack of Best Value and poorer financial outcomes for parents and pupils.

Recommendations have been made to address the above points, including formalising school administrator guidance and related training; risk assessing nursery premises, and ensuring schools comply with school fund and purchase card requirements. In addition, it is recommended E&LL works with Finance to ensure an optimal approach to VAT accounting and that Payroll enhance monthly payroll reports for timesheet hour monitoring purposes.

2.3 Management response

The Service welcomes this review of Early Learning and Childcare administration, which has provided the Service with a clear set of priorities to help strengthen our arrangements. The Service has already progressed a number of agreed actions. Finance guidance for schools will be reshared with all schools, with particular attention drawn to the requirements identified in this audit report. This guidance is stored

in a SharePoint site to ensure school staff always have access to the most up to date guidance and that the guidance can be updated easily as required. Where appropriate, the agenda for Quality Improvement Team Learning Walks and QI visits to schools has been amended to include requirements from this report.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Minor
1.1	<p>Guidance and Training – Comprehensive guidance and training, made available to staff, can reduce the risk of errors and inconsistency and provide management with assurance over staff practices, especially in the event of an experienced employee being absent or leaving.</p> <p>The Council's Scheme of Governance, including the Financial Regulations and Procurement Regulations, as well as various guidance made available to staff via the Financial Services corporate SharePoint site, adequately define policy and expectations for staff on managing Council finances, including those managed by nurseries/Early Learning Centre (ELC) settings. This includes Education and Lifelong Learning's School Fund Accounting and Auditing Requirements procedure, which adequately defines school fund requirements (e.g. annual audit and reporting to Finance, activity set up, reconciliations, prohibited spend).</p> <p>Despite this, as highlighted below, some practice has contravened policy/procedure and when asked why this was the case staff indicated they were unaware of the related requirements. Where staff are inadequately trained, this risks inappropriate financial administration, financial loss and reputational damage.</p> <p>However, an Administrators Handbook is being compiled with a publication due date of September 2025, which will provide a single point of reference for school administrators covering all school financial and administrative matters, which should help to address this. A recommendation is included to track progress to ensure staff are adequately trained.</p>		
IA Recommended Mitigating Actions			
The Administrator's Handbook should be finalised, approved for use and issued and E&LL should establish a system of control to ensure staff are adequately trained.			
Management Actions to Address Issues/Risks			
A School Admin Handbook will be completed and shared with all schools and settings. The handbook will be stored within the existing Education Finance folder on SharePoint to ensure that schools and settings always have access to the most up to date version.			
Risk Agreed	Person(s)	Due Date	
Yes	Quality Improvement Manager	October 2025	

Ref	Description	Risk Rating	Moderate
1.2	<p>Purchase Card – Purchase cards are issued to named Council employees to procure goods or services for incidental/petty cash type spend, which cannot be fulfilled by one of the Council's approved supplier contracts. Each service area is required to have at least one reviewer to allocate the correct financial codes, allocate VAT, and upload receipt within the purchase card system in support of transactions. A reviewer can be a cardholder but does not have to be i.e. can review on behalf of cardholders. In addition, each service area is required to also have at least one approver required to check transactions are "legitimate" prior to approving them. Approvers cannot be cardholders to ensure segregation in purchasing by cardholders and the scrutiny of those purchases.</p> <p>All the settings had at least one purchase card in use at the time of the audit and were using the card to purchase the healthy snack provided free to pupils under the Scottish</p>		

Ref	Description	Risk Rating	Moderate
	<p>Governments Milk & healthy Snack scheme; this approach is acceptable to C&PSS in terms of Best Value.</p> <p>The Council's purchase card guidance, which all cardholders, reviewers, and approvers are required to be aware of, states:</p> <p><i>"Only the designated card holder should know the Pin number...Only the named cardholders should be spending on the card, cards must not be shared with other team members for making payment. When not in use each card should be securely kept in an ACC safe or other secure ACC locked facility. As a guide for all external entities (e.g., schools), pre-defined arrangements should follow this principle as regards custodianship of cards not in use within their area / vicinity / work HQ".</i></p> <p>However, one (17%) setting visited during this review was retaining their purchase card in an unsecured public location, along with the PIN number, presenting the risk of its unauthorised use and cost to the public purse. They were also allowing staff, other than the card holder to remove the card to make purchases, using a card sign in/out process. Failure to comply with the corporate guidance in this manner risks theft of the card and fraud, unauthorised and inappropriate spend, financial loss and reputational damage.</p> <p>In addition, two of the schools (33%) were not uploading the receipts relating to the spend made on the card, as required by the purchase card guidance impeding central monitoring of expenditure, albeit in each instance the hard copy of the receipt was available at the school and had been checked by the approver, Both reviewers at these settings who updated the purchase card system indicated they were unaware of the requirement but will ensure they upload receipts in future.</p>		
IA Recommended Mitigating Actions			
All E&LL cardholders, reviewers and approvers should ensure they comply with the Council's purchase card guidance.			
Management Actions to Address Issues/Risks			
E&LL will reshare the Council's purchase card guidance with all schools and settings and this will be added to the existing Education Finance folder on SharePoint to ensure that schools and settings always have access to the most up to date version. This will also be included on the agenda for the first in-person head teacher meeting of the new school session.			
Risk Agreed	Person(s)	Due Date	
Yes	Quality Improvement Manager	September 2025	

Ref	Description	Risk Rating	Minor
1.3	<p>Payroll Costs – All settings were receiving monthly staff monitoring reports from the Payroll Team, detailing the staff being charged to the setting, both permanent and relief. These reports were being checked to confirm that only staff working at the location were being costed there, and that any relief hours being paid reconciled to the timesheets submitted.</p> <p>Testing of payments made highlighted a member of staff who had received an overtime payment of £765, the only such payment across all Early Learning and Childcare settings. The payment was not approved by the school and was confirmed by the Payroll Team as having been a processing error within the Business Support Team.</p>		

Ref	Description	Risk Rating	Minor
	<p>The payroll element under which the payment was made does not show on the staff monitoring reports with the hours paid, but does show within the overtime account code (11112) as a value, therefore can be identified as overtime hours.</p> <p>Whilst there is guidance for budget managers to interpret the reports and the budget codes within the report included on a tab within the report, this could be improved which may help managers to identify errors and prevent incorrect payments happening. In this case, Education have contacted Payroll to arrange for the overpayment to be reimbursed. This employee has been notified of the overpayment and an invoice sent out to recover the monies.</p>		
	IA Recommended Mitigating Actions		
	The Payroll Team should review and revise the monthly staff monitoring report to ensure payroll errors relating to timesheet hours are more easily detected by making the guidance on using and interpreting the reports clearer for budget managers		
	Management Actions to Address Issues/Risks		
	<p><i>The current staff monitoring reports issued to budget holders provide clear guidance to managers on how to interpret the report and what each budget code relates to. In terms of overtime payments this is included in a different account costing column (11112) and reported against an individual employee.</i></p> <p><i>The Payroll Team will look into the possibility of adding a column in the Staff Monitoring report to confirm the actual number of hours as well as the value of the payment. In addition, communications will be issued to managers via the Leadership Forum about the importance of checking the monthly staff monitoring reports and will be emphasised in the covering email that accompanies the monthly reports.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Team Leader - Payroll	October 2025

Ref	Description	Risk Rating	Moderate
1.4	<p>School Fund – The School Funds Accounting and Auditing Requirements provides guidance for maintaining the school fund. A school fund should be governed by a constitution, which details the requirements for administering that specific fund, and what the funds can be used for. To ensure the fund is being administered appropriately, a reconciliation of the fund balance should be carried out monthly, and the fund should be subject to an annual independent audit.</p> <p>The three standalone nursery settings had no separate bank accounts, with all current expenditure funded through Council DSM budgets. The three primary schools had a fund, which was available for funding resources for the whole school including the nursery.</p> <p>Whilst all school fund expenditure reviewed was supported by receipts/invoices and all had an annual audit as required, the following exceptions were noted:</p> <ul style="list-style-type: none"> Two (66%) of three schools didn't have a school fund constitution at the time of the review, risking unauthorised and inappropriate expenditure, due to school fund governance arrangements being inadequately prescribed. One of three (33%) school fund spreadsheets was not maintaining a cash book to fully support the income and expenditure transactions undertaken. It did not provide a running balance of the fund's balance, had a poor level of transaction narrative / 		

Ref	Description	Risk Rating	Moderate
	<p>description and activities had not been separated adequately, impeding management oversight.</p> <ul style="list-style-type: none">• The same school (33%) mentioned above did not provide the Head Teacher with a monthly bank reconciliation to school fund category balances, reducing management financial control over the school fund.• In addition, the same school (33%) mentioned above had unsupported cash (~£80) held in the safe, increasing the risk of accusations of misappropriation of funds and reputational damage. The school has verified this balance will be paid in to the school fund bank account at the next available cash uplift.• None of the schools had completed activity set up forms reducing the supporting evidence as to why activities had been set up, who had authority to make use of these funds, and what should happen with any surplus / deficit when the activity ended <p>Collectively, these breaches of school accounting requirements, risk poor financial control, unauthorised expenditure, the achievement of Best Value, allegations of misappropriation of funds, and reputational damage.</p>		
IA Recommended Mitigating Actions			
Education should ensure staff comply with the school, fund requirements set out in the "Financial Services – Schools Finance" area of the Council's intranet.			
Management Actions to Address Issues/Risks			
E&LL have included checking schools' compliance with financial regulations in respect of school funds on the agenda for Learning Walks/QI Visits from session 2025/26.			
Risk Agreed	Person(s)	Due Date	
Yes	Quality Improvement Manager	August 2025	

Ref	Description	Risk Rating	Moderate
1.5	<p>VAT – Specific VAT guidance relating to schools is available on the Financial Services – VAT section of the Council's intranet. It describes the correct accounting arrangements for a range of school income and expenditure for VAT purposes. The guidance has been reviewed in July 2025 by Finance.</p> <p><u>Photo Commission</u></p> <p>In relation school photo commission, it states this income cannot be accounted for within the school fund and instead must be accounted for with the school per capita budget as a standard rated activity, meaning under HMRC rules, the Council must repay the 20% VAT element included in the commission received.</p> <p>However, one school paid the commission into their school fund and has not paid over the VAT element to HMRC. The school administrator indicated they were unaware of the requirement despite it being covered in school VAT guidance on the Council's intranet and this had never been done during her tenure (15 years). The school are liaising with Finance to reimburse the VAT due for the current and previous three financial years.</p> <p>A follow up review of income processed through the Councils financial ledger identified VAT commission transactions for 11 schools. This could indicate that the remaining schools are not correctly accounting for VAT or are receiving no commission.</p>		

Ref	Description	Risk Rating	Moderate
	<p>Failure to comply with VAT regulations could result in penalties and interest charges being levied by HMRC on the Council, risking financial loss, public reprimand, and reputational damage.</p> <p><u>School Expenditure</u></p> <p>Where a school purchases standard rated goods or services, they can recover the VAT element, reducing the cost to their budget, and where VAT would otherwise be incurred by the school fund, this represents a saving which can benefit parents and pupils.</p> <p>However, instances were identified at two of the settings where standard rated expenditure with significant VAT content (approx. £300), permitted to be charged to the school's per capita budget, had been processed through the school fund, meaning the VAT element was unnecessarily incurred by the school, fund at the expense of parents of pupils, risking reputational damage for the school, should charges for school fund activities be unnecessarily high.</p> <p>In such instances it would be more economical for the school to process the transactions through the Council's procurement and payment process and transfer the net cost from the school fund to per capita.</p>		
IA Recommended Mitigating Actions			
<p>a) Schools should be reminded of the VAT requirements regarding photo commission and the process for recovering VAT on expenditure being funded from the school fund, where permissible.</p> <p>b) Education should request positive assurance from all schools that they have reimbursed the Council for VAT on phot commission or they have received no commission. They should be instructed, that should they have received commission and not reimbursed the VAT that they contact Finance to arrange for the required period of unaccounted VAT to be reimbursed to the Council.</p>			
Management Actions to Address Issues/Risks			
<p>a) <i>Current ACC guidance around the VAT requirements regarding photo commission and the process for recovering VAT on expenditure being funded from the school fund, where permissible, will be reshared with all schools.</i></p> <p>b) <i>We will contact the schools who have not appeared on the Internal Audit review to ascertain their compliance with the requirements of reimbursing the VAT element within photo commission received. We will notify them to contact Finance where a required reimbursement has not been processed.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Quality Improvement Manager	<p>a) August 2025</p> <p>b) October 2025</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 review scoping document

5.1 Area subject to review

As at 26 May 2025, Aberdeen City Council has 50 Early Learning and Childcare settings (three of which are not attached to a specific primary school). These establishments employ 477 salaried staff (375 FTE), while a further 109 relief staff were paid in April 2025, teaching approximately 3,100 pupils. For the financial year 2025/26 they have a combined budget of £16.74m and under the Devolved School Management Policy, approximately 72% of this budget is managed directly at the school level by the Head Teacher.

As well as Council budget provision, nurseries may generate their own funds through various means that are managed through the Primary school's standalone bank accounts held in each school's name with the responsibility for their management and financial control resting with the Head Teacher and the operational management with the school administrator. Turnover within these accounts can, for larger establishments, exceed five figures. The school fund should have a written constitution detailing the roles and responsibilities of staff as well as the uses to which the funds can be made.

5.2 Rationale for review

The objective of this audit is to ensure establishments have adequate procedures in place to manage the financial aspects of the establishment and comply with the Council's Financial Regulations.

This area has not been subject to review previously. Primary Schools are managing financial transactions outwith the Council's centralised financial controls, to which Nurseries may contribute. With online and cash transactions being processed through standalone bank accounts and financial spreadsheets, it is essential a system of independent review is undertaken.

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:

- Training
- Purchasing
- Purchase Cards
- Timesheets
- Milk & Healthy Snack Data
- School Funds
- Income & Security of Monies

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, Internal Audit will review relevant legislation, codes of practice, policies, procedures, and guidance.

This review will also encompass an evaluation of the governance, risk management and controls in place to achieve Best Value and to detect, prevent, and mitigate instances of fraud.

Due to hybrid working practices, this review will primarily be undertaken remotely via electronic meetings and direct access to systems and data, with face-to-face contact and site visits to premises to obtain and review further records as appropriate.

5.5 IA outputs

The IA outputs from this review will be:

- Head Teachers / Setting Managers at each nursery visited will receive a risk-based memo with recommendations specifically dealing with their establishment, whilst Location Managers will receive a location specific memo.
- 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 (**audit lead**)
- Andy 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, Executive Director – Families and Communities
- Shona Milne, Chief Officer – Education and Lifelong Learning
- Louise Beaton, Service Manager – Early Years (**process owner**)
- Caroline Johnstone, Quality Improvement Manager
- Moira Maciver, Head Teacher, Kingswells School
- Emma Douglas, Head Teacher, Abbotswell School
- Mark Evans, Head Teacher, Cornhill School
- Lara Macrae, Early Years Manager, Links ELC
- Karla Mennie, Early Years Manager, Duthie Park and Hazlehead Outdoor ELC settings

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	29-May-25
Scope agreed	5-Jun-25
Fieldwork commences	16-Jun-25
Fieldwork completed	04-Jul-25 ¹

¹ Fieldwork based on availability of staff at schools being visited with onsite visits proposed to place prior to the summer holiday break.

Milestone	Planned date
Draft report issued	25-Jul-25
Process owner response	15-Aug-25
Director response	22-Aug-25
Final report issued	29-Aug-25