

The Highland Council
Education, Children and Adult Services Committee
20 May 2015

Agenda Item	19.
Report No	ECAS 48/15

Internal Audit Report – Highland Instrumental Unit

Report by Director of Care and Learning

Summary

This report provides an overview and update in relation to an internal audit report on the Highland Instrumental Unit, recently considered by the Audit and Scrutiny Committee.

1. Background

1.1 Audit and Scrutiny Committee, on 26 March, considered an internal audit report relating to the Highland Instrumental Unit – income systems (copy of report **appended**). This report provides this Committee with an overview of key issues and actions relating to the report.

2. Highland Instrumental Unit

2.1 The audit reviewed the systems for the collection of income by the instrumental unit. The audit concluded that there was reasonable assurance in relation to arrangements in place, but that actions were required in relation to some areas of weakness.

2.2 Agreed actions include:

- Procedures for verifying parents in receipt of benefits and special exemptions required improvement and more regular review.
- Procedures for collecting outstanding sums due, and deal with overpayments and refunds, should be reviewed and actions to recover or refund progressed.
- Arrangements for monitoring non-payment and considering withdrawal of service should be reviewed. Regular reviews of debts should be implemented.
- Communications to parents should make clear that payment method is to be by direct debit.
- Documented procedures for administration of the unit's income should be prepared.

2.3 In relation to the action plan, progress is being made with all agreed actions and it is anticipated that all actions will be complete within agreed timescales.

3. Implications

3.1 **Resources:** Action plans will be taken forward within existing resources.

3.2 **Legal, risk and equalities:** Where relevant, these have been considered in the drafting and agreement of the management action plan.

3.3 **Climate change/carbon clever, Gaelic and Rural:** There are no implications to highlight.

Recommendation

Members are asked to note the appended internal audit report and action plan, and the update provided.

Designation: Director of Care and Learning

Date: 11 May 2015

Author: Brian Porter, Head of Resources

AUDIT REPORT SUMMARY

Report Title

Care and Learning Service- Highland Instrumental Unit Income Systems

Report No.	Type of Audit	Issue Date	
HAD06/001	Systems	Draft Report	20/11/14
		Final Report	16/02/15

1. Introduction

- 1.1 This audit was undertaken as part of the 2014/15 audit plan and examined the income collection function of the Highland Instrumental Unit (HIU). The audit examined the systems of payment within the HIU and assessed whether these systems are working effectively and efficiently. All other aspects of the HIU were excluded from this review.
- 1.2 The HIU administers a subsidised music tuition service to school pupils across the Highlands. Pupils can study a range of different instruments which are provided free of charge for as long as pupils need them, and receive one tuition session a week of 25 minutes duration, from qualified music Instructors. Pupils' parents or guardians are required to make a contribution to the cost of tuition which is currently set at £256.80 p.a. Payment is spread over a twelve month period and should be paid by a monthly Direct Debit of £21.40.
- 1.3 Not all pupils receiving tuition have to pay as there are three categories of exemption:
 - Where the pupil's parent or guardian is in receipt of a qualifying benefit.
 - Pupils in S4-S6 who are studying their chosen instrument as part of an SQA National Award. This exemption was introduced in August 2013 following a decision made by the Highland Council at the request of the Scottish Government.
 - Special exemptions can be made at the discretion of the Music Development Officer who manages the tuition service.
- 1.4 At the time of the audit there were 2,750 pupils receiving music tuition. The income budget for music tuition for 2014/15 is £600,000, a reduction of £80,000 from the previous year as the decision to exempt pupils who study SQA qualifications led to a reduction in the level of income.

2. Review Objectives

- The objectives of the review were to ensure that:
- 2.1 There are clear criteria which set out who pays for music tuition and who is entitled to free tuition. This is properly applied by staff within the Highland Instrumental Unit.
 - 2.2 Where payment should be made for tuition, there are appropriate systems in place for the accurate charging and recovery of all sums due. These systems are commensurate with the level of income received.
 - 2.3 There are effective debt recovery arrangements in place for outstanding sums due. Prompt action is taken to address any large outstanding sums or problems with particular debtors.

3. Main Findings

The main findings of the review, referenced to the above review objectives, are as follows:

- 3.1 This objective was partially achieved as the website and pupil registration form clearly state the three reasons for exemption (receipt of qualifying benefit, special exemption and studying for an SQA National Award). For those in receipt of benefits, all 6 reviewed had provided the necessary documentation to evidence entitlement. However, 1 was approved despite the supporting documents being out of date at the time of the application. For 2 individuals the proof of benefit entitlement was out of date at the time of the audit as updated evidence of continued entitlement is not requested.
- Where pupils are exempt due to studying for SQA awards but had previously paid for tuition, the payments had ceased although some refunds still needed to be made in cases where HIU had not been timeously notified of the exemption.
- All of the 57 pupils who were granted special exemptions had been approved by the Music Development Officer. The main reasons for approval were due to participation in special music projects or where a special request was made for a pupil. The audit has prompted HIU to review the process for approving special exemptions.
- 3.2 This objective was partially achieved as payment is made by Direct Debit for the majority (82%) of pupils. 1 error was found in a sample of 10 Direct Debit payments, where 10 months of tuition was omitted from the Direct Debit. This error occurred in the setting up of the Direct Debit where payment was requested for 1 rather than 2 children. As this was a Council error, the sum has not been pursued but the Direct Debit has since been amended for the correct amount.
- The Administrative Assistant maintains a record of Direct Debit defaults and correspondence with parents. A sample of 17 defaults was examined and appropriate action was taken to recover the outstanding sums but some of these still remain unpaid, particularly where invoices were subsequently issued.
- 18% of payments (385 pupils) are made by way of debtor invoices despite monthly Direct Debits being the official payment method for music tuition. These invoices are issued twice a year; February for the period August-January and August for the period February-July. A sample of 14 invoice payers covering a total of 42 invoices were examined and these were found to have been issued promptly and accurately. 19 were paid after the due date and 9 remained unpaid.
- There were 1,084 invoices raised in the previous school year (August 2013 - July 2014) with a value of £126,406. Analysis at 16/07/14 showed that 791 had been paid, with 269 invoices (25%) totalling £34,745 remaining unpaid. 24 invoices were only partially paid. 52 of the 1,084 invoices were selected for more detailed examination. Only 3 of these were paid on time and 18 (35%) remained unpaid.
- 3.3 This objective was not achieved. As detailed at 3.2 above, payment is also accepted by invoice and the payment rate is less than 75%. At the time of the audit the total debt owed to HIU was £67,794. The debt recovery process of issuing reminders and referring unpaid debts to Sheriff Officers is followed. However, it is uneconomical to collect the majority of sums owed which are less than £350 and so no action is taken by Sheriff Officers unless the individual has other debts with the Council and the accumulated sum is over £350. Furthermore, no sanctions have been applied against persistent non-payers as tuition has continued regardless of whether payment has been made.
- In addition, contrary to the requirements of Financial Regulations, there is no regular monitoring of debt.
- 3.4 In addition to the above findings, it was identified that the HIU is dependent upon their one Administrative Assistant. Whilst she is very knowledgeable of their processes, these are not documented which would cause operational problems in the event of any unplanned absences.

4. Conclusion

- 4.1 The large number of pupils, and the continuous enrolment and departure of pupils means that efficient administration is essential for HIU to maintain a successful income collection function. The current administration is diligent and systematic but is reliant upon one member of staff. If an unforeseen absence was to occur the system for administering HIU would be put at risk and may not function effectively.
- 4.2 The main concern arising from this review is that despite Direct Debit being stated as the payment method, a large number of invoices are also issued. The audit findings have highlighted that only 75% of invoices were subsequently paid and a number of these required first and/or second reminders to be issued before payment was made. The current process therefore creates an administrative burden for HIU staff and the Income and Recovery team.
- 4.3 An analysis of HIU's debt shows that some individuals persistently refused to pay for tuition and no sanctions were imposed. This situation highlights a lack of fairness with the system as those who do not pay are still able to access the same service as those who pay. A low rate of payment has led to an increase in HIU's debt over time and as the majority of debt is for small amounts, recovery is uneconomical and it is likely that this will eventually be written off.
- 4.4 The audit resulted in 6 recommendations being made, 2 classified as high priority and the other 4 medium priority. All recommendations have been accepted by management, with agreed action due to be completed by the end of October 2015.

5. Audit Opinion

- 5.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. .

AUDIT REPORT ACTION PLAN

Report Title

Care and Learning Service - Highland Instrumental Unit Income Systems

Report No.

HAD06/001

The Action Plan contains **6** recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.
 Important issues that managers should address and will benefit the Organisation if implemented.
 Minor issues that are not critical but managers should address.

Priority

High	2
Medium	4
Low	0
<hr/>	
	6

Total recommendations

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1	Medium	Of the 6 pupils sampled whose parents were in receipt of benefits: 1 was out of date at the time of application and 2 of the proofs of benefit were now out of date. The benefit award periods follow the fiscal year which is different to the school year and updated information is not presently requested. Special exemptions are not regularly reviewed. In addition, there is no formal process for documenting all such requests and the reason for approval/ refusal.	(1) Regular reviews should be undertaken by HIU to check that those in receipt of benefits have up to date documentation to support this claim. (2) The Music Development Officer should undertake regular reviews of the special exemptions. (3) Future request for special exemptions should be made in writing to the Music Development Officer and the reason for agreeing/refusing this request documented.	Annual review to be put in place by October 2015. Annual review to be put in place. This has been done (i.e. process has been changed as recommended).	Administrative Assistant.	31/10/15 31/08/15 Completed

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1 (cont'd)		Where pupils became exempt due to studying an SQA music qualification, not all previous sums owed were collected and a number of overpayments have still to be refunded.	(4) HIU should ensure that when a pupil becomes exempt from tuition any outstanding payments should be made. (5) HIU should process all refunds due to pupils who became exempt from tuition due to studying for an SQA music award.	Recover all outstanding payments. Process all refunds due.	Administrative Assistant. Administrative Assistant.	Completed. Completed. Any new cases will be examined as required.
3.2.1	Medium	1 error with a Direct Debit was found but this is considered to be an isolated incident. • Where Direct Debits fail, HIU have issued invoices to cover the unpaid tuition. From a sample of 17 defaults examined: HIU had made errors in the amount issued on invoices and in 1 case had not issued the invoice. • 2 pupils had not paid for the final month of tuition as invoices were not raised. This had been the policy at the time but has since been changed. • Where invoices were issued a number were not paid on time. This analysis showed that c.10% of the defaulted sums subsequently invoiced were not paid	The Direct Debit system is an efficient method of payment and all who are enrolled should use this payment method. In the event of non-payment there should be moves to withdraw the service rather than issue invoices for sums outstanding.	Write to all remaining 'invoice' payers insisting that they set up DD unless tuition is to be withdrawn.	Administrative Assistant, working with Music Development Officer.	05/04/15

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3.2.2	High	<p>Despite the fact that payment should only be made by Direct Debit, a number of invoices are also issued.</p> <p>For the school year August 2013- July 2014, 27% of the issued invoices totalling £36,092 remained unpaid or partially paid.</p> <p>From examination of a sample of 42 invoices paid by 14 individuals, 19 were paid late and 9 remained unpaid. A similar picture was obtained when examining a random sample of invoices issued during the year. These findings show that payment by invoices is not working efficiently and is not cost efficient.</p>	<p>The music tuition leaflet and Pupil Registration Form should be amended to state that failure to pay by Direct Debit may result in service withdrawal.</p>	<p>Amend information.</p> <p>public</p>	<p>Music Development Officer.</p>	<p>Completed.</p>
3.3.1	Medium	<p>Analysis of HIU's debt showed that £61,524 was owed. This sum is c. 11% of the annual income budget. The majority of individuals owe sums of less than £350 making recovery uneconomical.</p> <p>49% of the individual debt (£29,900) was less than 1 year old and spread across 293 invoices and 216 debtors.</p> <p>20 debtors were examined in greater detail and this covered 22 pupils, 10 of whom were no longer in receipt of tuition. Of the 81 invoices examined for these individuals, 34 were issued in the last year with 27 over 2 years old.</p>	<p>(1) Action should be taken to recover all outstanding sums with priority given to those sums over £350 which can be pursued by the Sheriff Officers.</p> <p>(2) HIU should contact those owing sums who still have children enrolled, explaining that non-payment will result in a withdrawal of the service.</p>	<p>Appropriate parental contact.</p>	<p>Administrative Assistant working with Music Development Officer.</p>	<p>30/06/15</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3.2	High	No regular monitoring of debt takes place contrary to the requirements of Financial Regulations.	The Music Development Officer should review the debt situation regularly in accordance with the Council's Financial Regulations.	Obtain regular reports & review termly.	Music Development Officer (working with information provided by Income & Recovery).	28/02/15
3.4	Medium	All administration for HIU is undertaken by one member of staff. There is currently no set of procedures in place in the event of unexpected absence.	HIU should create a set of procedures which can be followed in the absence of staff.	Set of procedures to be created.	Administrative Assistant, following discussion with Music Development Officer re appropriate calendar events influencing HIU procedures.	31/10/15