Department for Education
Policy paper

Guidance: Internal scrutiny in academy trusts

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1. Who is this good practice guide for?

This good practice guide provides guidance for trustees, audit and risk committees, academy trust staff, governance professionals (GPs) and internal scrutiny providers.

It aims to provide them with suggestions as to how they can implement internal scrutiny if audit arrangements that meet the requirements of the Academy Financial Handbook (AFH). It also aims to help them to facilitate their group's internal scrutiny if it is a multi-academy trust (MAT), or to support a peer review, as well as to strengthen their internal control environment, and to provide them with a medium for self-reflection.

2. What is the status of this good practice guide?

This guide is not mandatory and does not contain requirements for trusts set out in the Academy Financial Handbook (AFH) or the Academies Governance Handbook (AGH). It is intended to be a helpful guide to assist trusts with meeting their requirements. Rather it aims to provide suggestions regarding good practice.

3. What the AFH says about internal scrutiny

The AFH requires all trusts to have a programme of internal scrutiny to provide independent assurance to their boards that the trust's financial and non-financial controls and risk management procedures are operating effectively. The AFH states that the programme of internal scrutiny should be proportionate, and that it works best if it:

- evaluates the suitability of, and level of compliance with, financial and non-financial controls, including the trust's risk management procedures are effective and efficient, and checking whether agreed controls and procedures have been implemented
- offers a rational and cost effective approach to assurance that gives assurance to financial and non-financial controls, acting as a catalyst for improvement. It should also ensure that management action is taken in a timely manner to the trust
- ensuring all categories of risk are adequately identified, reported, and managed

The AFH, therefore, requires that trusts have effective oversight and independent, objective assurance arrangements. The internal scrutiny function provides this.

The internal scrutiny will:

- give assurance
- help the trust improve governance, risk, and control arrangements, and
- provide a catalyst for improvement and a means of bringing change to the right way

An independent scrutiniser not only helps the trust ensure it complies with the AFH, but also provides a catalyst for improvement. It helps with the development of an effective internal control environment and risk management. This will help management ensure that its priorities are delivered.

The approach taken to the internal scrutiny will vary from trust to trust, with trust size and relative complexity being factors.

4. Is internal scrutiny the same as internal audit?

Yes. The AFH 2020 states that the ESFA considers that the term internal scrutiny should be used to describe internal audit arrangements.

Independence in internal scrutiny is achieved by establishing appropriate reporting lines and ensuring that the scrutiniser does not audit their own work or committee. An illustrative frame of reference for an audit and risk committee of an academy trust can be found here.

5. What is the link with risk management?

The planning of the programme of internal scrutiny must be a risk-based approach, taking into account the trust's risk management framework and the internal control framework that exists within the trust's profile. The programme of internal scrutiny will be informed by the trust's risk register, which is owned by the trust board and managed by the senior leadership team (SLT). The risk assurance framework and the programme of internal scrutiny should be closely aligned, with the programme of internal scrutiny being a tool to provide assurance that the trust's work and risks are updated accordingly. For further guidance on risk management, please read the ESFA's good practice guide on academy trust risk management.

6. Internal scrutiny options

The AFH sets out 4 options open to trusts to deliver internal scrutiny:

- employing an internal scrutiniser
- a bought-in internal audit service from a firm, other organisation or individual
- a peer review from another trust
- the appointment of a member of governance professional staff
- a peer review performed by the CFO, from another academy trust. The non-financial activities of the trust should also be subject to a peer review, using standard of financial management and governance standards and cover their back for to decision. The peer reviewer should be independent of the trust.

The AFH requires that the programme of internal scrutiny should cover, on a rolling basis:

- auditors should be members of relevant professional bodies
- Trustees and governors should be independent of the operations of the trust, accounting or audit and appropriate internal audit experience. Trusts should consider the Institute of Internal Auditors (IIA), the Institute of Chartered Accountants England and Wales, and professional bodies, as guidance on an ethical standard applicable to audit engagements. Under the ethical standard, the internal auditor should be independent, objective, and free from providing external audit to avoid any risks that can provide internal audit services to it.

7. Which option should we choose?

Trustees will need to decide the level of internal scrutiny work required that is proportionate to the risks that the trust is exposed to and its size. Factors to consider in selecting the most suitable option include:

- the auditor/scrutiniser's knowledge of the trust
- their qualifications, experience and skills
- whether they are governed by professional code of ethics and standards
- value for money

Trusts will want to keep their options under review, taking account of the factors listed, although they should not be tempted to change provider unless:

- the scale, diversity, and complexity of the trust's activities
- whether changes have occurred in the trust's risk profile, reporting processes or business systems
- the trust's plans for future growth, plans and emerging risks
- any increase in the number of unscrutinised or unaudited entities

8. What is the coverage of internal scrutiny in a trust?

An internal scrutiny programme will have financial control systems at its core, but should also include a review of non-financial controls and risks of a certain size or complexity at trust level. Trustees will also want to review other key areas, such as governance, staffing, IT, and the trust's strategic planning and delivery. Additionally, they should consider the trust's governance and organisational culture, management information, or succession planning. Sometimes it may be helpful to include a review of a particular function, such as HR, or a review of the financial system that impacts on the trust's financial control. Trusts may also be included in scope of the review programme if the audit and risk committee agree.

9. What should the internal scrutiniser look at?

This will be influenced by the risk profile of the trust, the current position of financial and non-financial controls and the concerns of the audit and risk committee. The scrutiniser should also look at the trust's governance, staffing and IT operation and their views on the current risks and key controls, and seek to provide assurance on the trust's governance, staffing and IT operation.

A suggestion for the frequency of internal scrutiny is that it should cover the scope of an audit in self-set all areas in three to six self-assessed. Each of these areas should be reviewed at least once every three years. Trusts should, ideally, identify Multi-Academy Trust (MAT) wide systems and academy level business risks (SCF) most ensure that they have an effective internal control environment.

Failure to ensure proper internal control over key business processes may result in a qualified opinion on the regularity and propriety of the trust's ESFA is a modification of the external auditor's regulatory opinion.

10. Reporting the findings of the programme

The audit and risk committee will require the internal scrutiniser to report back on their work. The trust's internal scrutiniser will report back to the audit and risk and to consider any reports from the internal scrutiniser when they meet.

1. Responsibilities

- The audit and risk committee is responsible for internal control and risk management in the trust's governance, staffing and IT operation, and to report to the board of trustees on the effectiveness of the trust's internal control and risk management.

2. Authority

- the Audit and Risk Committee is a Committee of the Academy Trust Board and is accountable to the board of trustees. It has the authority of reference set out in the Scheme of Delegation.
- the Audit and Risk Committee is authorised to:
  - request any information it requires from an employee, external audit, internal audit, or other assurance provider.
  - obtain legal or other independent professional advice if it considers necessary, normally in consultation with the Accounting Officer and/or the Trust Board.

3. Composition

- the membership of the committee will comprise a minimum of 3 trustees, including the chair of the committee, the Accounting Officer, the accounting officer and Chief Financial Officer, and the internal scrutiny function. Information and participation in discussion.
- the chair of trustees may not be the chair of the audit and risk committee.
- where the audit and risk committee is combined with another committee, the chair of the audit and risk committee should be a member of the discussion.
- with otherwise determined by the board of trustees, a quorum shall consist of three members, including the chair.
- if, and case number of the audit and risk committee, is unable to meet a quorum, or is unable to assume, experience.
- the committee may co-opt members for a period of up to 12 months – necessary, normally in consultation with the Accounting Officer and/or the Trust Board.

4. Reporting

The Audit and Risk Committee will:

- report back to the Trust Board regularly every term.
- provide an annual report to the board of trustees on the internal scrutiniser / auditor and areas reviewed by internal scrutiny / audit covering key findings, recommendations, responses.

5. Coverage

The Audit and Risk Committee will:

- advise the board on the effectiveness and resources of the external/internal scrutiny function, taking into account the trust's risk management framework.
- ensure that the internal scrutiny function is independent, objective, and free of the auditor's/scrutiniser's work everything.
- ensure that the internal scrutiny function is:
  - whether the auditor/scrutiniser has the skills needed on a timely basis to the appropriate level.
  - the quality and effective outcomes comments and recommendations in reports.
  - where relevant the personal authority, knowledge and integrity of audit partners and their staff, consistent with the requirements of the Institute of Chartered Accountants in England and Wales.
  - the auditor's/scrutiniser's use of technology.
  - ensure there is a comprehensive internal scrutiny and external audit and such and any other bodies that are relevant.
  - ensure that the internal scrutiny function is independent, when appropriate, advise the Trust Board on appointment of the internal scrutiniser.
  - encourage a culture within the trust whereby each individual feels that he or she is part of the trust's internal control system, and that it is vital to the trust that each individual performs his or her part in the system with integrity and in a responsible circumstances direct to the Board of Trustees.
  - ensure that the internal scrutiny function attends meetings for review of board meetings.

External Audit

- review the external auditor's plan each year.
- review the annual report and accounts.
- review the auditor's findings and recommendations to the trust's SLT in response to those findings.
- review the external report of the committee's conclusions to advise the board of trustees on the accounts.

Internal Scrutiny

- take responsibility on behalf of the board of trustees for examining and reviewing all systems and methods of control both financial and non-financial, to ensure that the trust's assets are safeguarded, that its funds are used for the purposes for which they are intended, and that the requirements specified in the Academies Financial Handbook.
- review the internal scrutiny plan each year.
- agree an annual programme of internal scrutiny work, which is objective and independent, covering systems, controls, transactions, and risks.
- review the internal scrutiny function's annual report and opinion, and the trust's response to the issues raised by the internal scrutiny function.
- consider the appropriateness of executive action following internal scrutiny/external scrutiny reviews and the implementation of any recommendations.
- review the annual review of the trust's risk register

Annex 2

Suggested areas of coverage

Please note that this list of suggested areas is not intended to be exhaustive. Trusts should consider what is most relevant to their circumstances and develop a cyclical programme of work tailored to the trust and its risks.

Cash and Bank

Accurate monitoring of liquidity and cash and bank balances is a key risk in any business. Cash forecasting needs to be accurate, and the trust needs to be able to monitor and control its cash and bank balances. Cash balances are balances to withstand the impact of any unforeseen financial pressures. Cash itself frequently represents a security risk, and the systems for safe storage, collection, banking and reconciliation need to be robust and up-to-date.

The scrutiniser may test a number of transactions and the controls and procedures in place to ensure that management:

- whether the trust has a comprehensive cash forecasting and budgeting process
- review the trust's cash forecasting process to ensure it is effective and accurate
- review the trust's freeze procedures for the receipt and banking of cheques and cash, and the trust's procedures for petty cash
- check a sample of receipts and payments against the trust's cash records to verify that the income has been correctly accounted for
- check a sample of payments against the trust's cash records
- ensure that monthly bank reconciliations are performed and accurate, including reviewing validity of reconciling items, and reviewed
- review the trust's procedures for the receipt of cash, including cash collection, including, the opening, maintaining and the bank reconciliation signing instructions and access to the bank account

Governance

Poor contract management will result in trusts paying too much for goods and services, or receiving poor quality goods and services. Poor governance can also be a risk to the trust's reputation. Trusts need to have robust procedures for trusts in relation to related party transactions and conflicts of interest. Trusts need to have robust procedures for trusts in relation to related party transactions and conflicts of interest.

- check of a sample of purchase orders to delivery notes and invoices to ensure that documentation is in place and that payments are accurate and authorised
- check a sample of payments back to invoices, purchase orders and delivery notes to ensure that payments are accurate
- review statements from suppliers to ensure they are being checked, reconciled and payments made
- review contracts, requisitions and purchase orders to ensure the ordering followed
- check a sample of any capital assets (e.g. desk computers, interactive whiteboards, refurbishment) for physical evidence

Monthly financial breakdown

Monthly breakdown will follow on and procedures and the scrutiniser may test a number of transactions and the controls:

- review that monthly bank reconciliations are performed and accurate, including reviewing validity of reconciling items.
- review of the process for the trust's payment reconciliation and/or reconciliation of payments
- review of the sales ledger and bank account reconciliation and/or debtors to ensure accurate
- review of the accruals schedule against costs committed but not yet invoiced
- check of petty cash balances and supporting documentation
- review of any budget statements and adjusting journals for reasonableness, accuracy and authorisation
- review of any bank or other loans, or other financial commitments and provide information

Payroll and HR

Ineffective HR systems can lead to low morale and productivity. Effective HR systems should provide management information on staff sickness, absence and turnover and staff training and development. Payroll costs are usually the vast majority of the trust's expenditure and so ought to feature in any programme of internal.

- review of a sample of starters, leavers and salary increases to ensure they are authorised and in accordance with the trust's pay policy and supporting documentation.
- review of the monthly payroll to ensure that any changes and salary increases are authorised and in accordance with the trust's pay policy.
- a reconciliation of payroll to the trust's ledgers to ensure that any variances are not beyond the appropriate dates.
- review of the trust's pension reconciliation and contributions.
- review of a sample of expenses claims to ensure that appropriate documentation to support the claim and that it is appropriately authorised.

Effective Systems for Staff

Whether the expected environment of scale arising from merging and satellite schools, the trust's governance, staffing and IT operation, the trust should consider the need for efficiency and operational autonomy of constituent academies in a multi-academy trust (MAT). Trusts need to have robust procedures for trusts in relation to expenditure and the trust's procedures for trusts in relation to expenditure, and to be addressed through the multi-year budget process? Do budgets properly reflect the trust's strategic plans? Are budgets realistic? Do budgets properly reflect the operational plans and the trust's business plan goals/values, human resources and other data?

Food, Staff, and Health

Food can be costly and embarrassing, and the threat is constant. All trusts should have a robust system in place. Trusts need to have robust procedures in place. Of course, the trust's food provision should be kept to detect, and one off checks may be effective delivered.

Safeguarding and Safeguarding

All trusts should have effective policies, protocols, procedures, and monitoring in place. Trusts need to have robust procedures in place to safeguard all of course, the trust's safeguarding and safeguarding and safeguarding and welfare. Specialist skills may be required to provide assurance in these areas.

Management Information and reports

Ensure the trust's management information to ensure information supplied is consistent with the underlying accounting records and internal management information such as:

- management accounts
- financial reports to board
- key performance indicators
- returns to the DfE/ESFA

Ensure management accounts are promptly supported by explanations for significant variances, and that action is agreed to address appropriate review and challenge by management and the Finance committee

Data Quality

Good data is the foundation of effective decision making. Business continuity and recovery of key systems and information after unexpected interruption also feature.

Data protection (e.g. GDPR compliance) is also likely to be a key issue.

IT systems should be assessed for their resilience in terms of exposure to cyber security risks.

Premises Issues

Capital projects can be expensive and complex, but consideration should also be given to checks! Accounts, business continuity and PFI issues and wo.g. Health and safety issues, and other premises issues.

Governance structure

Trusts need governance structures and processes appropriate to their size and structure. These must be regularly reviewed and updated. Trusts should. Good governance, executive and operational structures.

Business Continuity/Disaster Recovery

The trust must have adequate plans in place to ensure business continuity in the event of a disaster. Business continuity and disaster recovery plans need to reflect current circumstances and mitigate risks.

Annex 3

Acknowledgements

Special thanks to:

ESFA Academies Finance & Assurance Steering Group and working groups.

Suggested format for internal scrutiny annual report

- Executive summary (including overall opinion)
- Introduction
- Approach to work and standards
- Classification of opinions (that is, the way in which the scrutineer can describe the level of confidence in respect of each business system reviewed and overall)
- Assessment of the work commissioned
- Summary of work undertaken (tabulated) (not exhaustive list)
  - Item 1 (payroll)
    - Overall opinion
    - Recommendations (H/M/L)
    - Management response
  - Item 2 (procurement)
    - Overall opinion
    - Recommendations (H/M/L)
    - Management response
  - Item 3 (budgeting)
    - Overall opinion
    - Recommendations (H/M/L)
    - Management response
  - Item 4 (non-financial example GDPR)
    - Overall opinion
    - Recommendations (H/M/L)
    - Management response
- Follow up reviews of earlier work including any outstanding recommendations
- Overall opinion on governance and control environment, based on entirety of scrutiny programme (current level of confidence in effectiveness of internal control, overall)
- Fraud, any fraud identified/reported
- Cost of work (scrutineer/auditor days used)
- Forward look for next year (emerging issues)

Note: If the trust uses more than one individual or organisation to deliver its internal scrutiny work, the trust can only submit one file and therefore will need to amalgamate into a single PDF when submitting to the ESFA.

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Coronavirus (COVID-19)

Coronavirus (COVID-19): guidance and support

The UK has left the EU

Check the new rules for January 2021

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