

Procedure for Internal Scrutiny

February 2020



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Considered by Audit Committee

12th February 2020

Ratified by Board of Governors

26th February 2020



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Summary

This procedure details how Priestlands School will comply with Part 3 (Internal Scrutiny) of the Academies Financial Handbook 2019 (AFH).

1 Induction

As well as regular (annual) external audits Priestlands School will adopt a programme of internal scrutiny to provide independent assurance to the board that the school's financial and other controls, and risk management procedures are operating effectively. Priestlands will establish an Audit Committee which will oversee the programme of internal scrutiny to ensure that it meets all requirements of the AFH but also does this in a cost effective manner.

2 Responsibilities

The Business Manager shall be responsible for implementing this procedure and for arranging and facilitating all internal scrutiny items as defined by this procedure. The Business Manager shall also be responsible for updating this procedure as necessary (in consultation with the Audit Committee) to ensure it remains in line with any updates to the AFH or any other changes in relevant school policies.

The Internal Scrutineer shall be responsible for carrying out internal audits (see below) as arranged by the Business Manager under the direction of the Audit Committee and shall report findings back to the Business Manager and Audit Committee.

The Audit Committee shall be responsible for reviewing the programme of internal scrutiny both in terms of the results of the various audits and the overall programme to ensure it meets the needs of the AFH, and remains effective and cost efficient. The Audit Committee shall also report back to the full Board of Governors on a regular basis highlighting any issues arising from the programme of internal scrutiny or any associated issues or areas requiring improvement or development

3 Audit Committee

The Audit Committee shall be made up of at least 3 members of the school's Board of Governors (BoG) and will appoint its own chairperson, a minimum of two members must attend each meeting. The Chair of the BoG or the Finance Portfolio holder should not be the chair of the audit committee but may be members. If possible, at least one member of the audit committee should have relevant audit experience or relevant workplace experience in a financial related industry. The Headteacher, business manager or any other employee of the trust must not be members of the audit committee but the Headteacher and business manager should attend meetings of the audit committee. The audit committee shall meet at least 3 times per academic year, once per term, and minutes of each meeting shall be taken. The audit committee will also review the results of the annual external audit although this may be carried out as part of a full BoG meeting as opposed to a separate audit committee meeting. The full terms of reference for the audit committee are shown in attachment 1 and the basic (current) meeting schedule and agenda items are shown in appendix 2.

4 Risk Register

The school's risk register shall form the basis of the system of internal scrutiny. The Audit committee shall review the risk register (as produced and updated by the business manager) after every update and highlight which items within it fall under the remit of the audit committee. Such items shall be highlighted in the 'Person responsible for action section' in the risk register. The audit committee shall then ensure that the internal audits (carried out by the internal scrutineer) planned will provide an adequate system of checks to confirm internal systems highlighted as risks under the register are effective and compliant. An example of such a review is contained in appendix 3. If the audit committee determines that there are areas within the

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register that are not fully covered by the internal audits planned then the audit committee will be responsible for ensuring these areas are checked by an alternate method (by an independent person(s) who must not be an employee of the trust but may be a member of the audit committee or BoG) with results being reported back to the audit committee.

5 System of Internal Scrutiny

After a review of the 4 options Priestlands has decided that it will deliver its internal scrutiny by a combination of:-

- Employing an in-house internal auditor
- The appointment of a non-employed trustee

The basis for this decision was :-

- Whilst noting the importance of guarding against complacency, the schools external audits have shown little or no areas of concern about the school's financial & control systems arising.
- Ensure that any system must be cost effective as well as fit for purpose.
- Availability of appropriate person linked to the school who could provide this service
- Having trustees with suitable backgrounds who could provide assistance for areas not covered by the internal audits.

6 Internal Scrutineer

Priestlands has currently engaged Louise Hill to act as the school's internal scrutineer. LH has formerly served as a Governor of Priestlands for 6 years (2012 to 2018) so has a thorough understanding of the trust and also has an extensive background in business and finance (see appendix 4 for full Bio). LH is prepared to carry out this role at zero cost thus providing excellent value for money.

If at such time LH is no longer available to carry out this role then the Business Manager and audit committee will review how to replace her. As part of this review they will consider whether the System for Internal Scrutiny chosen above is still appropriate

7 Schedule of Work

The audit committee shall determine the schedule of work that the internal scrutineer shall carry out as part of his / her internal audits which, as above, shall be based on the items as highlighted in the review of the risk register. It should be noted that due to the nature of financial risks and associated control processes a single check may cover more than one line item in the risk register. The schedule of work shall be reviewed annually & also after any major change to the risk register & will be contained in the minutes of the audit committee and reported back to the full BoG. The current (Jan 2020) schedule of work is shown as an example in appendix 4, later versions will be documented in the minutes of the audit committee.

8 Reporting

After each internal audit the internal scrutineer will provide a report on the audit carried out for review by the audit committee. The report will detail the work carried out, results and any resulting actions. Under the current schedule of work this will result in two reports per academic year. The second of these reports will contain an annual summary of the work carried out, key findings, recommendations and conclusions (essentially a culmination of both reports). This summary will be submitted to the ESFA by 31st December each year as part of the audited annual report submission as per AFH 3.22.

9 Monitoring and Review

As well as the various reviews mentioned above this policy shall be reviewed in its entirety every 3 years or whenever a new version of the AFH section 3 is issued whichever happens sooner.

Appendix 1: Audit Committee Terms of Reference

The Board of Governors hereby resolves to establish a committee to be known as the Audit Committee.

1. Responsibilities

- 1.1 To maintain an oversight of Priestlands financial, governance, risk management and internal control systems.
- 1.2 To report its findings termly and annually to the Board of Governors and the Accounting Officer as a critical element of the annual reporting requirements.
- 1.3 The Audit Committee has no executive powers or operational responsibilities/duties.
- 1.4 The Audit Committee will review and approve the recommended system that Priestlands will use. It will also direct the work to be undertaken from the main risks identified from the risk register. The areas will be of specific focus and should be the starting point for such audit checks.

2. Authority

- 2.1 The Audit Committee is a committee of the Priestlands Board of Governors and is authorised to investigate any activity within its terms of reference or specifically delegated to it by the Board of Governors.
- 2.2 The Audit Committee is authorised to:
 - Request any information it requires from any employee, external audit, internal audit or other assurance provider.
 - Obtain outside legal or independent professional advice it considers necessary, in consultation with the Accounting Officer and/or the Board of Governors.

3. Composition

- 3.1 The membership of the Committee will comprise a minimum of three governors.
- 3.2 The Chair of the Board of Governors and the Lead of the Finance Portfolio shall not serve as Chair of the Audit Committee, though the Lead of the Finance Portfolio should be a member.
- 3.3 Until otherwise determined by the Board of Governors, a quorum shall consist of two members of the committee.
- 3.4 Ideally, at least one member of the Audit Committee should have recent or relevant accountancy, or audit assurance, experience.
- 3.5 Staff employed by the Trust/School may be invited to attend the Audit Committee to provide information and participate in discussions but should not be members of the committee, will be separate to the Finance Portfolio and not have overlapping membership.
- 3.6 Any governor may attend a meeting of the Audit Committee, including those who are not members of the Audit Committee.
- 3.7 The Business Manager and Headteacher should also attend meetings.

4. Reporting

- 4.1 The Audit Committee will:
 - Meet and then report back to the Board of Governors regularly every term.
 - Provide an annual summary report provided by the internal auditor in areas reviewed by internal audit covering key findings, recommendations and conclusions.

5. Duties

The specific duties of the Committee shall be to:

- 5.1 Oversee the school's risk register and, on the advice of the Business Manager/Accounting Officer, conduct a regular review of risks.
- 5.2 Take delegated responsibility on behalf of the Board of Governors for examining and reviewing all systems and methods of control both financial and otherwise including risk analysis and risk management; and for ensuring the Board of Governors is complying with the overall requirements for internal scrutiny, as specified in the Academies Financial Handbook.
- 5.3 Agree an annual programme of internal scrutiny with the Board of Governors' internal auditor (formerly the Responsible Officer) for checking financial systems, controls, transactions and risks.
- 5.4 Ensure that the programme of internal scrutiny delivers objective and independent assurance and meets, or exceeds, the standards specified in the Academies Financial Handbook.
- 5.5 Provide assurance to the Board of Governors that risks are being adequately identified and managed.
- 5.6 Advise the Governors on the adequacy and effectiveness of the Board of Governors' systems of internal control and governance processes, securing economy, efficiency and effectiveness (value for money).
- 5.7 Consider the appropriateness of executive action following internal audit/internal scrutiny reviews and to advise senior management on any additional or alternative steps to be taken.
- 5.8 Advise the Board of Governors on the appointment, reappointment, dismissal and remuneration of auditors (both external and internal audit).
- 5.9 Monitor the effectiveness of auditors' annual and long-term audit programme.
- 5.10 Review the findings of the external auditors and agree any action plan arising from it.
- 5.11 Ensure there is co-ordination between internal audit and external audit and any other review bodies and staff that are relevant.
- 5.12 Ensure that additional services undertaken by the auditors is compatible with the audit independence and objectivity.
- 5.13 Consider the reports of the auditors/scrutineers and, when appropriate, advise the Board of Governors of material control issues.
- 5.14 Encourage a culture within the Trust whereby each individual feels that he or she has a part to play in guarding the probity of the Trust, and is able to take any concerns or worries to an appropriate member of the management team or, in exceptional circumstances, directly to the Board of Governors.
- 5.15 Provide minutes of all Audit Committee meetings for review at Board meetings.
- 5.16 Review the operation of the Board of Governors Code of Practice and Code of Conduct for Staff.
- 5.17 Consider any other matters where requested to do so by the Board of Governors.

November 2019

Appendix 2: Audit Committee Meeting Schedule and Agenda Items**Agenda for meetings****November meeting**

The committee **must**:

- Review actions from previous meetings & check if there have been any updates to the risk register since last meeting
- review the risk register to confirm all items which fall under the scope of the audit committee.
- agree a schedule of work for current year to deliver internal scrutiny based on the above review of the risk register.
- agree who will perform the work and when
- Conduct final review of internal audit report to be submitted with trusts audited accounts
- agree meeting dates for March and May
- review any submissions (planned or actual depending on time frame) to be made to DfE and ESFA by business manager that affects funding to ensure they are accurate (AFH 3.14)
- consider outputs from other assurance activities by third parties including ESFA financial management and governance reviews, funding audits and investigations if applicable
- Consider any other matters arising which may effect the ongoing or planned internal scrutiny.
- Keep minutes for BoG

February Meeting

The committee **must**:

- Review actions from previous meetings & check if there have been any updates to the risk register since last meeting
- Review report of internal scrutineer & follow up on any issues or changes required to the next planned internal audit as a result of findings
- consider progress in addressing recommendations from previous internal audits
- review any submissions (planned or actual depending on time frame) to be made to DfE and ESFA by business manager that affects funding to ensure they are accurate (AFH 3.14)
- consider outputs from other assurance activities by third parties including ESFA financial management and governance reviews, funding audits and investigations
- Consider any other matters arising which may affect the ongoing or planned internal scrutiny.
- Keep minutes for BoG

May meeting

The committee **must**:

- Review actions from previous meetings & check if there have been any updates to the risk register since last meeting
- Review report of internal scrutineer & follow up on any issues or changes required to the next planned internal audit as a result of findings
- consider progress in addressing recommendations from previous internal audits

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- review any submissions (planned or actual depending on time frame) to be made to DfE and ESFA by business manager that affects funding to ensure they are accurate (AFH 3.14)
- consider outputs from other assurance activities by third parties including ESFA financial management and governance reviews, funding audits and investigations
- discuss and draft the annual report of the committee to the BoG
- Consider any other matters arising which may affect the ongoing or planned internal scrutiny.
- Keep minutes for BoG

Appendix 3: Example of Risk Register Review

Risk Register Review: November 2019

Reviewed by: Paul Cox, Chair of Audit Committee

Purpose

A review was carried out to determine whether the existing system of 2 annual internal audits by an Internal Scrutineer (formerly Responsible Officer) was still sufficient to satisfy the revised Internal Scrutiny requirements in the updated Academies Financial Handbook 2019 (AFH19).

Background

At the inaugural meeting of the Audit Committee (as required by AFH19) it was determined that the most cost effective option for Priestlands under section 3.17 was to continue to 'employ an in-house auditor'. This Internal Auditor (previously referred to as Responsible Officer) conducts 2 internal Audits during each academic year with reports being fed back to the SLT & Board of Governors. To ensure that as well as being cost effective this system also met the requirements of Part 3 of the AFH19 the Audit Committee did the following :-

- 1) Reviewed the full risk register for the 2018/9 academic year (as the latest version with the latest update for 2019/20 being work in progress) & identified all items which, as per section 3, should fall under the Audit Committee's remit.
- 2) Considered each of the above items vs the last 2 Internal Audit Reports to determine if these were adequately covering the risks / identify any gaps in the audit process.

Results

The results of point 2 above (for all items in point 1) are as follows:-

| Risk Ref No. | Comment |
|--------------|--|
| 1.5 | Checked as part of Dec 18 Internal Audit |
| 2.3 | Covered by regular discussions in man BOG meetings |
| 3.2 | Not covered by internal audits, need to review method for auditing this item |
| 3.3 | Not covered by internal audits, need to review method for auditing this item |
| 3.4 | Not covered by internal audits, need to review method for auditing this item |
| 3.5 | Not covered by internal audits, need to review method for auditing this item |
| 4.1 | Checked as part of June 19 Internal Audit |
| 5.1 | Not covered by internal audits, need to review method for auditing this item |

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- 5.5 Checked as part of June 19 Internal Audit
- 6.1 Will be checked in Dec 19 Internal Audit
- 6.2 Will be checked in Dec 19 Internal Audit
- 6.3 Checked as part of June 19 Internal Audit
- 6.4 Checked as part of June 19 Internal Audit
- 6.5 Checked as part of June 19 Internal Audit
- 6.6 Checked as part of June 19 Internal Audit
- 6.7 Not currently applicable as no investments
- 6.8 Checked as part of Dec 18 Internal Audit
- 6.9 Fully covered by annual external audit
- 6.10 Checked as part of June 19 Internal Audit
- 6.11 Checked as part of Dec 18 Internal Audit
- 6.12 Fully covered by annual external audit
- 6.13 Not covered by internal audits, need to review method for auditing this item
- 6.14 Not fully covered, suggest add as a regular agenda item for Audit Committee meetings.
- 6.15 Should be fully covered by new IT policy, check this at next Audit Committee meeting.
- 6.16 This is a repeat of 6.15 so should be deleted.
- 7.1 Checked as part of Dec 18 Internal Audit
- 7.2 Checked as part of June 19 Internal Audit
- 7.3 Checked as part of Dec 18 Internal Audit
- 7.4 Checked as part of Dec 18 & June 19 Internal Audit
- 7.5 Checked as part of Dec 18 Internal Audit

Conclusion

Based on the above review it is concluded that the existing internal audit system, along with the external audit system & other general BOG checks is a suitable method for ensuring Internal Scrutiny so no changes to the current system are suggested. The Audit Committee should review the above points which are not covered (not suitable for review by internal scrutineer, need BOG checks) & establish a method for covering those. This will be added to the agenda for the next meeting.

Appendix 4: Bio of Louise Hill, Internal Scrutineer

Louise Hill is co-founder and COO of gohenry - the prepaid pocket money card and app that empowers young people to take part in the digital economy.

LH co-founded gohenry in 2012 along with two other parents when she realised that her children, now aged 18 and 21, needed to learn how to manage their money in an increasingly digital world. Fast forward seven years and gohenry now has a community of over 850,000 active users in the US & UK who fiercely believe that good money management is a vital life skill.

Prior to gohenry, LH studied languages at Westminster University in London and worked as an interpreter before moving into retail. She joined the 'fast track' graduate trainee programme at House of Fraser then, once internet shopping began to gain a foothold, moved into e-commerce. In the past 20 years, she has launched e-commerce websites and run contact centres and warehouses for many of the UK's big-name retailers, including Next Directory, John Lewis, The Innovations Group, Past Times and Debenhams.

With two years also spent running a major transformation project at the Borough of Poole which included managing the Council's procurement team, she has a tight grip on commercial, financial and procurement matters.

Louise now splits her time between gohenry's headquarters in London and their Lymington office - which is housed in a former sweet shop. She dedicates time to talking to MBA groups at a number of universities around the country and, until recently, was a governor at a local secondary school.

Appendix 5: Example of Schedule of Work

Priestlands School: Schedule of Work to Achieve Internal Scrutiny

Following a review of the Risk Register the following is the schedule of work planned for 2019 – 2020 academic year.

1) To be carried out by Internal Scrutineer

Two internal audits to be carried out in December 2019 & April 2020, areas to be covered in each to be:-

December 2019

- Inventory management
- Contracts & SLA's
- Risk Register
- General observations on new business manager with regard to successful handover from retiring business manager.

April 2020

- Bank reconciliations
- Petty Cash
- Purchases & Expenses
- Income including GAG
- Nominals and Management Reports
- Payroll
- Asset Register / Inventory

2) To be carried out by trustees / members of audit committee.

To be determined at next meeting of audit committee (Feb 2020) following review of risk register items 3.2, 3.3, 3.4, 3.5, 5.1, 6.13, 6.14 & 6.15 to confirm appropriate audit method of these items.