

## Your academy trust's system of internal control

A strong system of internal control is vital to ensure your academy trust thrives. A robust system of internal control gives management and those charged with governance assurance over:

- safeguarding of assets and resources
- delivery of value for money
- risks of financial malpractice
- risks of inappropriate use of funds

This factsheet sets out some key considerations for academies looking to review and improve their system of internal control to deliver maximum benefit.

### Overview

Your academy trust's system of internal control should not be seen as a single act, but rather part of an overall integrated approach to management and oversight. It should be reviewed regularly, annually at a minimum and additionally if there are any significant changes or events which necessitate a review of the system, such as:

- change in the structure of the academy trust
- significant changes to systems, for example manual to automated
- change in the size of the academy trust
- concerns raised by internal or external auditors
- significant fraud, impropriety or other financial irregularity

Academies are responsible for developing systems and processes appropriate to their particular circumstances, whilst also meeting certain minimum requirements within the Education and Skills Funding Agency's (ESFAs) financial framework.

### The accountability framework for academies

Academy trusts are companies, charities and public sector bodies. This tripartite status places significant and wide-ranging responsibilities on members of management and governance at academies, as set out within company and charity law, as well as within [HM Treasury's Managing Public Money](#).

These requirements are brought together within the [Academies Financial Handbook](#) and [Academies Accounts Direction](#), as published by the ESFA.

#### [The Academies Financial Handbook](#)

[The Academies Financial Handbook](#) requires the academy trust to put in place sound internal control, risk management and assurance processes. The Trust must also have in place a process for checking its financial systems, controls, transactions and risks. The sections on developing a process for internal control and internal scrutiny explain the elements to include in your risk assessment.

Compliance with the handbook is a condition of an academy trust's funding agreement. The handbook is currently updated annually and comes into effect on 1 September each year.

### **[The Academies Accounts Direction](#)**

[The Academies Accounts Direction](#) is the guidance pack for academy trusts and their auditors to use when preparing and auditing annual reports and financial statements for the accounting period ending on 31 August annually. It supplements the Academies Financial Handbook and has the same status.

The Accounts Direction outlines the requirements set out in academy trusts' funding agreements with the Secretary of State.

### **[Financial Management and Governance Self-Assessment \(FMGS\)](#)**

This is a short self-assessment checklist that highlights the main requirements new academy trusts must have in place soon after opening. It provides a simple way for you and the ESFA to gain assurance that your academy trust's financial management and governance arrangements meet these requirements.

#### **FMGS now online**

The FMGS moved to an online system. This can be accessed from the information on this webpage: <https://www.gov.uk/government/publications/academy-financial-management-and-governance-self-assessment-guidance>

#### **Fraud and financial irregularities in academies**

The ESFA has published resources to support academy trust accounting officers to manage their finances in a transparent and effective way, and to reduce the risk of fraud or financial irregularities. These include a list of generic indicators of potential fraud and a checklist to help you review your academy trust's arrangements for preventing, detecting and dealing with fraud should it occur. These can be accessed from this webpage: <https://www.gov.uk/guidance/academies-guide-to-reducing-any-risk-of-financial-irregularities>

The ESFA continues to publish investigation reports where it identifies significant weaknesses in the system of internal control at academies. These can provide a useful example of what can go wrong. These can be accessed from this webpage: <https://www.gov.uk/government/collections/academies-investigation-reports>

#### **Developing a system of internal control**

The Academies Financial Handbook details what a Trusts' internal control framework must include. Each academy trust needs to assess their internal control requirements and ensure that the framework is adhered to.

The system of internal control should include appropriate reviews and scrutiny, including:

- review of all skills and expertise of key staff and governors; assessment and self-evaluation including, but not limited to, Finance team, principal, other staff with financial involvement and all governors
- review of inspections, audit reports and assessments (Ofsted, external and internal audit, peer review, responsible officer / governor reports)
- detail the current methodology and systems of internal control and scrutiny

Based on the analysis of the information in the points above, make an assessment of the risk profile (e.g. high, medium or low) in order to inform the level of internal control required

Options for managing the program of risk review and checking of financial controls detailed in the [Academies Financial Handbook](#) include:

- the appointment of an internal audit service (either in-house, bought-in or provided by a sponsor);
- the performance of a supplementary programme of work by the trust's external auditor;
- the appointment of a non-employed trustee with an appropriate level of qualifications and/or experience to check the Trust's internal controls, who neither charges, nor is paid by the trust for their work. This appointment is not mandatory but is one way trusts are able to conduct their internal checks. This person should advise but not be a member of the finance committee;
- a peer review, with the work being performed by the chief financial officer, or a suitably qualified or experienced member of the finance team, from another academy trust, as an independent reviewer

Note there are pros and cons of each of the above options, for example:

|                                   | <b>Pro's</b>  | <b>Con's</b>  |   |
|-----------------------------------|---|---|---|
| Internal audit                    | <ul style="list-style-type: none"> <li>- Impartial</li> <li>- Experience level</li> </ul>                               | <ul style="list-style-type: none"> <li>- Additional cost</li> </ul>   | Commission on internal audit                  |
| External audit supplementary work | <ul style="list-style-type: none"> <li>- Knowledge of Academy Trust</li> <li>- Use in year-end audit routine</li> </ul> | <ul style="list-style-type: none"> <li>- Skill set for internal audit</li> <li>- Less objectivity (potentially)</li> <li>- Additional cost</li> </ul> | Ensure different teams are used in the work   |
| Trustee                           | <ul style="list-style-type: none"> <li>- No cost</li> <li>- Understanding of academy trust</li> </ul>                   | <ul style="list-style-type: none"> <li>- Do they have knowledge and expertise</li> </ul>  | Work directed and detailed by audit committee |
| Peer review                       | <ul style="list-style-type: none"> <li>- Practitioner insight</li> </ul>  | <ul style="list-style-type: none"> <li>- May lack rigour</li> <li>- May need to pay/ provide the same service</li> </ul>                              | Agreement drawn up                            |

Based on the assessments and analysis, and the internal control options, each trust will need to develop a recommended system of internal control and scrutiny for their particular needs. The assessment example shown in the Annex shows how one trust approached this work and made their assessment.

### **Role of the audit committee**

The audit committee will review and approve the recommended system that the academy trust will use. They 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.

### **Resources**

HM Treasury: Managing Public Money

<https://www.gov.uk/government/publications/managing-public-money>

Academies Financial Handbook

<https://www.gov.uk/government/publications/academies-financial-handbook>

Financial Management and Governance Self-Assessment (FMGS)

<https://www.gov.uk/government/publications/academy-financial-management-and-governance-self-assessment-guidance>

Academies Accounts Direction

<https://www.gov.uk/guidance/academies-accounts-direction>

## Internal Control and Scrutiny

**Internal control assessment – XYZ School**  
**Year**

**Month**

### **Finance team**

An experienced effective and respected team with excellent experience and qualifications:-

Business Manager: ACMA qualified, Advanced Diploma in School Business Management, X years' experience at XYZ School

Finance Officer: X years' experience at XYZ School

Finance Officer: AAT qualified, schools finance experience, X years' experience at XYZ School

### **Accounting Officer**

X years' experience at XYZ School in a range of roles providing thorough knowledge and understanding of all aspects at XYZ School.

### **Governing Body**

Excellent knowledge highly engaged and involved in school; comprising of a broad range of experience at senior levels in commercial and public sector organisations. It is effective at challenging and questioning.

### **Audit reports**

Clean, unqualified year end audit reports.

Auditors are complimentary of the financial control systems and finance team.

Mid-year financial systems audit (most recently completed in Month Year) was clean.

### **Peer review**

#### **You might decide, based on the risk assessment to use a three way agreement**

System developed X years ago comprising a three way agreement between XYZ School, ABC School and 123 School Chief Financial Officers. Undertake three visits per year. Rotation changes every two years to ensure objectivity and impartiality.

#### **Recommended internal scrutiny system:**

- 1. Internal audit system – not required**
- 2. Supplementary programme of works by external auditor – mid-year systems audit**
- 3. Appointment of a non-employed trustee – not required**

The above assessment and internal scrutiny system is deemed appropriate at present.

It will be reviewed annually and also in any of the following circumstances:

- 1. Change of finance team staff**
- 2. Change of Accounting Officer**
- 3. Change of auditors**