

## Minimum Requirements Relating to Schools Internal Audit Services

**21 Minimum Requirements Relating to Schools Internal Audit Services****21.1 Appointment Of Internal Auditors**

Governing Bodies are responsible for ensuring that internal auditors are appointed each year and that the financial and management systems of their school are subject to full audit review at least once in every three years. No contract shall be for longer than three years. Appointments may be achieved either by continuing to use the County Council's internal audit service or by appointing internal auditors of their own choice who satisfy the minimum audit requirements. This may be evidenced either through the school's previous experience of using the providers as their internal auditors or through appointing internal auditors who have been accredited through the Alternative Portfolio tender process.

In the event that auditors are appointed from outside the County Council, the Governing Body must appoint them in accordance with the terms set out in these Internal Audit Service Minimum Requirements and any Financial Regulations and Instructions which apply. The Governing Body must ensure that the internal auditors appointed are independent and do not have any personal or business connection with any member of the Governing Body or school staff, and have not, for example, advised on areas of financial practice which are to be reviewed. The Director of Finance IT & Trading must be informed of such appointments and he may carry out such enquiries as he considers necessary to provide him with the assurance that these standards have been complied with and that he can rely upon the auditors appointed.

**21.2 The Director Of Finance It & Trading's Statutory Requirements**

The Director of Finance IT & Trading has a number of duties imposed on him by statute as the County Council's "responsible financial officer" under S151 of the Local Government Act, 1972. To enable him to fulfil his statutory duties all audit working papers, planning documents, correspondence and reports must be made available to him. All agreed audit reports should be copied to him as soon as they are available. He has a responsibility to monitor the standards of internal auditors and he will carry out such reviews as he considers necessary. He may require an audit to be repeated where these standards have not been complied with. Where a governing body employs auditors to advise on aspects of financial management which are in addition to those defined in the minimum standards, it is not obligatory to forward a copy of such reports to the Director of Finance IT & Trading.

Nothing in the foregoing diminishes the right the Director of Finance IT & Trading currently has relating to the Internal Audit function. Hence, all reasonable access and explanation must be given to him or staff acting on his behalf. The Director of Finance IT & Trading reserves the right to undertake audit reviews and other such work as he considers necessary to fulfil his statutory obligations.

**21.3 Management Responsibilities****21.3.1 Governor's responsibilities**

The governors are responsible for:

A. establishing and maintaining management and financial systems containing an effective system of controls enabling the school to operate in an orderly, effective and efficient manner, ensuring adherence to statutory requirements, County Council and Management policies, safeguarding the assets and securing (as far as possible) the completeness and accuracy of

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the records;

B. making available to staff, copies of financial regulations and instructions, financial procedures manuals, Management of Voluntary Unofficial Funds Handbook and statements issued by the Governing Body which form part of the system of management and financial control in the school.

**21.3.2 The Headteacher's responsibilities**

The Headteacher is responsible to the Governors for: Ensuring compliance with all statutory requirements and other regulations relevant to the constitution and activities of the school.

**21.3.3 Internal Auditor's responsibilities****21.3.3.1 Qualification and Experience of Internal Auditors**

Internal auditors should have relevant and adequate internal audit experience backed up by a suitable audit or accountancy qualification. Auditors have a duty to keep abreast of developments within internal audit and the schools sector. They must be aware of relevant publications of the Audit Commission.

**21.3.3.2 Role and Terms of Reference**

Auditors must operate in accordance with the Auditing Standards set out below.

Auditors must report to the Governing Body and the County Council through the Director of Finance IT & Trading on the financial systems examined by them and give an *opinion on*:

- (a) the extent to which its assets are adequately safeguarded and controlled;
- (b) the soundness, adequacy and application of financial and management internal control systems;
- (c) the reliability and integrity of the records maintained to ensure a sound basis for the production of management information;
- (d) whether the financial. operations are organised in an efficient, effective and economic manner;
- (e) whether the Financial Regulations and Instructions have been complied with;
- (f) whether "value for money" is obtained from its various operations.

The Director of Finance IT & Trading will rely upon internal auditors in fulfilling his statutory responsibilities. They are responsible for the information reaching him.

**21.3.3.3 Scope and Planning**

It is the duty of internal audit to evaluate all significant financial and management systems to determine whether key objectives are being achieved, an adequate level of control exists and value for money is obtained. This will include all operations and responsibilities of the Governing Body. The work of the internal audit service must be planned at all stages to ensure that all systems are covered in the audit cycle, and include an assessment of risk and audit need. The cyclical audit plans must be agreed by the Governing Body and the Director of Finance IT & Trading prior to the audit commencing. Audit coverage should meet all the requirements of the DfES' Financial Management Standards in Schools.

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**21.3.3.4 Independence**

Independence is fundamental to effective internal audit. Auditors must have no management responsibilities within the school other than internal audit. Internal audit should have its own priorities, which should be approved by the Governing Body. Unrestricted access must be provided to all records under audit.

**21.3.3.5 Approach**

On appointment auditors should plan their work based on an Audit Needs Analysis and an Audit Risk Assessment. Auditors should adopt a risk-based approach, identifying the systems, their objectives and controls. The auditor must evaluate and test the existence, effectiveness and strength of these controls arriving at conclusions and recommendations to be reported to the Governing Body. Auditors must conduct their reviews based on the current situation at the school and not confine their examination to a particular financial year.

**21.3.4 Standards**

The operation and conduct of the internal audit service should conform to the standards and guidelines for internal audit approved by the professional accountancy bodies and, in particular, the CIPFA Code of Practice for Internal Audit in Local Government in the UK. The internal auditor must maintain effective monitoring of audit standards in the service provided.

**21.3.4.1 Provision of Service**

The Governors must maintain a quality professional internal audit service. Auditors must provide a flexible service to meet the requirements of a changing workload and provide or have direct access to specialist skills where required (e.g. computer and contract audit). Auditors must be available to provide schools with continuous audit advice and assistance. The investigation of suspected financial irregularities (dishonesty) will be undertaken by the Director of Finance IT & Trading and suspicions of any such incidents must be reported to him immediately they arise.

**21.3.4.2 Liaison**

Internal Auditors must liaise with the Director of Finance IT & Trading and the County Council's External Auditors (at present the Audit Commission) to provide an effective service.

**21.3.4.3 Reporting**

The auditor must issue a report within three weeks of the completion of the audit.

The report must comment upon all significant matters arising during the audit and, in particular, the report must comment upon and make recommendations to correct:

- weaknesses in the structure and operation of accounting systems and internal controls;
- inappropriate policies and practice;
- instances where poor value has been received;
- non-compliance with Policies and regulations binding on, or laid down by, the Governing Body;

It is good practice to comment on positive issues that have arisen during the audit.

Losses caused by a failure to operate a system of proper financial control or by unlawful actions must immediately be reported to the Director of Finance IT & Trading and the Governing Body. The auditor must make all papers and reports available to the Director of

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Finance IT & Trading as required.

**21.3.4.4 Responses to Audit Report**

*Governors are responsible for.-*

either directly, or through a committee deputed by them, considering the internal auditor's report at the next appropriate meeting following receipt of the audit report and responding in writing to the internal auditors, with a copy to the Director of Finance IT & Trading, setting out how the internal audit recommendations will be implemented.

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