



**STATEMENT OF INTERNAL
CONTROL POLICY**

HEATON SCHOOL

2018-19

TO BE REVIEWED SEPTEMBER 2019

Heaton School Policy Record

**Statement of Internal Control Policy Agreed at:
Resources Committee: 20/11/18**

Signed and Approved by:

Headteacher ----- (Signature)

----- (Name)

----- (Date)

Chair of Committee----- (Signature)

----- (Name)

----- (Date)

To Be Reviewed: September 2019

Designated person: J Curtis, Headteacher

IMPORTANT – The statement can be signed at any point during the year. Schools should update the SIC annually. Therefore all schools should have, at any given point in time, a Statement of Internal Control that has been signed within the previous 12 calendar months.

1 Introduction

- 1.1 Statements of Internal Control (SIC) have been introduced in large sections of both the public and private sectors as part of a move to more effective corporate governance arrangements. Typically, the SIC forms part of a set of documents relating to a financial year's activities that also includes an annual report, financial statements and an external auditor's report. In essence, the annual report and financial statements describe the operational and financial outcomes for a particular financial year. The statement of internal control acknowledges the entity's responsibilities for the system of internal control from which those operational and financial outcomes are derived. It is also used to highlight any known problems with that system so that the reader can take these into account when considering the outcomes. The external auditor's report provides further comfort by confirming whether the financial statements present a true and fair view (or present fairly) those financial outcomes.
- 1.2 Schools are responsible for significant amounts of public expenditure, form part of local authorities who are required to prepare statements of internal control and receive Dedicated Schools Grant from the DCSF who are also required to prepare statements of internal control. Thus, as part of the chain of accountability for their public funds it is logical that schools should also be required to prepare statements of internal control. As most schools do not have their own formal accounts and external audit reports, the statement of internal control in this context will refer to the financial performance set out in the school's Consistent Financial Reporting (CFR) return and the one page Financial Summary derived from it.
- 1.3 The statement set out in this guide is similar in concept to those used in both local authorities and in central government but has been simplified for use in schools to reflect the comparatively smaller scale of financial activity and consequently the financial expertise available. The SIC is primarily a factual statement setting out the processes that are in place to ensure effective financial management of the school and its resources. Discussion of the draft SIC by the governing body, and its ultimate signature by the Headteacher and key governors, demonstrates that they acknowledge responsibility for financial management of the school and take that responsibility seriously.
- 1.4 The SIC requires a view to be taken on whether the signatories "*are satisfied that the internal control systems in operation at the school during the year were adequate and effective*". While this may seem onerous, it should not require much additional work at all as the basis upon which it is signed is explained and the assurance to be given is "reasonable" and not "absolute". The first is dealt with by describing processes and reviews which should be part of normal school operations and represent the good practice required by the Financial Management Standard in Schools (FMSiS). The second recognises that statements of this type can never give "absolute" assurance as internal control systems, no matter how sophisticated, can never prevent or detect all errors or irregularities. For example, if key staff were really determined to collude improperly and engage in fraudulent practice, they could get around most internal control systems.

2 Transparency

- 2.1 Taken in conjunction with the CFR Return, the SIC will provide the s151 Officer at the local authority with assurance that the funds managed by a school have been properly controlled and accounted for.
- 2.2 Furthermore, making this statement available to parents who request it serves to show that the school's financial management is open and transparent.

3 The Format of the Statement

- 3.1 The SIC is designed to be brief, but informative. The specimen statement is shown at Appendix 1 and contains five paragraphs:
- **Paragraph 1** explains the governing body's responsibilities. To achieve the FMSiS, each school will be expected to use the wording given in the specimen statement (Appendix 1).
 - **Paragraph 2** explains the limitations of control systems. This wording is important because it aims to make it clear to the reader that "absolute" assurance cannot be given and is not expected. To achieve the FMSiS, each school will be expected to use the wording given in the specimen statement (Appendix 1).
 - **Paragraph 3** explains how the governing body has satisfied itself that controls are adequate before its representative agrees to sign the statement. To achieve the FMSiS, each school will be expected to use the wording given in the specimen statement (Appendix 1) as a minimum. It may be that the governing body has carried out additional steps and may wish to add those to this paragraph of the SIC.
 - **Paragraph 4** states that the governing body is satisfied that internal controls at the school were adequate during the year, assuming this to be the case. If the governors are not satisfied about the adequacy of key internal controls, they should list briefly any serious/high priority control weaknesses
 - **Paragraph 5** is where planned action to improve the control system is disclosed. Such disclosure is normally only needed if governors have expressed in paragraph 4, concern about the adequacy of any of the controls
- 3.2 The specimen statement is available as a Word document to be tailored for school use. **Click here** to access the Word document.

4 Deciding Whether to Disclose a Weakness at Paragraph Four

- 4.1 When deciding whether or not to disclose that a particular control is inadequate, governors should take into account all the relevant information available to them, and also consider:
- how likely is the risk, i.e. to what extent the inadequacy of the control(s) puts the school at risk
 - the likely impact of the risk on the school if it occurred, for example on the school's financial position, ability to function, reputation etc.
 - the cost of any action needed to reduce the level of risk posed
 - whether this cost is justified and proportionate given the risk perceived
- 4.2 If you need more information about risk management, summary 3.3 of the DCSF tool kit to support financial management in schools may be of interest to you as it is on risk management.
- 4.3 Figure 1 illustrates the dynamic relationship between the likelihood of a risk occurring and its potential impact. Internal auditors commonly use such an approach to assess

how critical their audit findings are. However, some caution is needed as their terminology varies (some using only three categories of priority or risk, i.e. high, medium and low, while others may use four or five categories), hence the period within which corrective action is to be taken has also been included in the figure below to help ensure consistency. Headteachers and school governors may, therefore, wish to rank the control weaknesses they or an internal auditor have identified, in terms of gravity of the risk they pose to the school.

4.4 A note of caution is necessary. A matrix such as figure 1 cannot substitute for the use of informed judgement, by experienced professionals, about the importance of a particular control weakness. Therefore, if the school is uncertain about the gravity of a particular weakness in the control system, it should first involve the relevant staff at the school in a discussion about the weakness and if uncertainty remains it should contact the internal audit section at its Local Authority for advice.

Likelihood of risk arising from the weakness	Degree of Impact		
	Minimal	Moderate	Significant
Likely	Low/Medium Priority ¹	High Priority	Very High Priority
	Address within three to six months.	Address urgently ²	Address immediately
	Do not disclose in SIC	Normally disclose in SIC	Always disclose in SIC
Possible	Very Low Priority	Medium Priority	High Priority Address urgently ²
	Address within nine months.	Address within three months.	Address urgently ³
	Do not disclose in SIC	Only disclose in SIC if it is thought particularly useful to do so	Normally disclose in SIC
Unlikely	Not a Priority	Low Priority	Medium Priority
		Address within six months.	Address within three months.
	Ignore	Do not disclose in SIC	Seldom disclose in SIC

Figure 1: An illustration of the qualitative assessment of the priority of control weaknesses

¹ Whether it is a medium or low depends on specific details such as the volume of activity affected by the weakness. High volume areas would probably be assessed as medium because of the accumulation effect of many small errors. Low volume areas would probably be considered a low priority.

² Urgent implies action within weeks rather than months. Please note that all the time periods indicated in figure 1 are purely illustrative and aim to show the relative urgency of different weaknesses. Actual implementation plans will need to be locally determined taking account of all relevant known factors.

³ Urgent implies action within weeks rather than months. Please note that all the time periods indicated in figure 1 are purely illustrative and aim to show the relative urgency of different weaknesses. Actual implementation plans will need to be locally determined taking account of all relevant known factors.

5 Deciding Whether to Sign the Statement of Internal Control

- 5.1 The governing body should only sign the SIC when it feels it can do so with confidence, having studied all the available evidence. Governors should be able to derive much of the evidence they need from:
- meeting, or working towards, the Financial Management Standard in Schools (FMSiS) which incorporates most of the following items;
 - their own monitoring of financial management and regular scrutiny of financial reports;
 - their regular meetings with the Headteacher and other staff;
 - the most recent report on the school's finances by the Local Authority appointed internal auditor; and
 - annual self-evaluation of the internal control system (for the significant systems not commented on recently by internal audit).
- 5.2 In addition, members of the governing body should have used the *Pre-certification Guidance Checklist for Governors* attached at Appendix 2 before they authorise their representative to sign the SIC. If the governors answer "Yes" to all questions they should be able to sign the statement without the need to tailor paragraph 4 to accommodate their concerns about any of the controls, or to add a fifth paragraph to say how these might be addressed. If they answer "No" to any question, they should consider the implications of such a response, and these are explained in the checklist.
- 5.3 The specimen statement is available as a Word document to be tailored for school use.

6 Possible Sources of Self-Evaluation Checklists for internal control systems

- 6.1 Three good sources are:
- *Keeping Your Balance* by the Audit Commission – Revised October 2000, which contains a checklist of internal controls for well-controlled schools
 - *Controlling School Finances* – a self-evaluation tool, available on the Audit Commission's web site at www.schoolsbudget.audit-commission.gov.uk. This is closely related to the checklist in *Keeping Your Balance* referred to above but is interactive and offers some examples of good practice
 - Your **Local Authority finance or internal audit team** who may be able to provide a checklist tailored to your local context
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A Statement of Internal Control For Schools

- 1 This statement relates to the Internal controls for Heaton School for the 12 months from *when the Statement of Internal Control was agreed in the current financial year*. The governing body is responsible for ensuring that the school:
- keeps proper accounting records during the year which will disclose, with reasonable accuracy and at any time, the financial position of the school, have been drawn up in accordance with the DfES' (CFR) guidelines, and will enable it to prepare an annual income and expenditure statement that complies with DCSF guidelines
 - maintains and operates an effective system of internal control to safeguard all the resources delegated, granted or otherwise entrusted to the school and ensure they are used cost effectively
- 2 The system of internal control has been developed and is coordinated by the Headteacher. It aims to provide as much assurance as is reasonably possible (not absolute assurance) that assets are safeguarded, transactions are properly authorised and recorded and that material errors or irregularities are either prevented or can be detected promptly
- 3 Our review of the effectiveness of the systems of internal control is informed by:
- our regular scrutiny of financial and other performance monitoring data
 - regular reports from the Headteacher and other managers to the governing body
 - the most recent report of the school's internal auditor dated 13/09/2011
 - our most recent self-evaluation of the internal controls undertaken xxxxxx
- 4 We are, therefore, satisfied that the internal control systems in operation at the school during the year were adequate and effective:

Assets

Risk: there is inadequate control over the security and safeguarding of assets of the school.

1	An up to date inventory is maintained of all assets above £500 or those that are deemed portable/desirable.	Yes
2	An annual check is undertaken by an independent officer to ensure the physical items agree to the items listed on the inventory. The inventory is signed and dated to confirm agreement.	No
3	All discrepancies are investigated and any over a specific value are reported to the governing body.	Yeas
4	All property taken off the school site is recorded, signed for and its return recorded.	Yes
5	All write-offs and the disposal of surplus stocks and equipment is undertaken in accordance with written policies/Financial Regulations	Yes
6	There is a procedure for the security of premises, it is adequate and reviewed regularly.	Yes
7	The number of keys in existence to buildings, safes, etc is limited to the minimum practical and access to them is controlled.	Yes
8	All keys to safes, cash boxes and other receptacles in which money or valuables are secured are carried on the person of those responsible at all times.	Yes

5 We propose over the coming year to take the following steps to address the weaknesses noted above

- An annual check will be undertaken by the Deputy Headteacher to ensure the physical items agree to the items listed on the inventory. The inventory will be signed and dated to confirm agreement. All discrepancies will be investigated and any over a specific value are reported to the governing body.
- A procedure for the security of premises will be written.

Appendix 2

Statement of Internal Control - Pre-Certification Checklist for Governors

The Statement of Internal Control (SIC) is designed to accompany the DCSF Consistent Financial Reporting (CFR) Return and Financial Summary, and so relates to the same completed financial year. The internal controls it refers to are those required as best practice by the Financial Management Standard in Schools (FMSiS).

The issues for governors and the Headteacher to consider before authorising their representatives to sign the SIC fall into two categories:-

- Specific actions and more general control processes that should have occurred during the financial year in question; and
- Specific actions needed after the year end when the CFR Return is available.

The questions are split into these two categories for ease of consideration. That consideration is probably best achieved as a group, perhaps at the finance committee meeting that approves the CFR Return, and needs to be formally recorded. The questions are structured so that:-

- A “yes” answer to every question would allow the SIC to be signed without any amendment; and
- A “no” answer to any question will require either further action or explanation in the SIC.

Controls that should have operated during the financial year		
Question	Agreed Yes or No	Implication of the Answer
Did we set the school budget in line with the priorities detailed in the school development plan either before the beginning of the financial year (1 st April) or as soon as possible thereafter?	yes	If <i>yes</i> , no action. If <i>no</i> , paragraph 4 should disclose this weakness. Paragraph 5 should explain the steps being taken to ensure next year’s budget is set on time and reflects the school’s priorities.
Did we see regular reports on the school’s financial position during the year, did the Headteacher and bursar answer all the questions raised with them and were we satisfied that materially accurate records have been maintained throughout the year? (Regular in this context would refer to termly reports as a minimum and possibly more frequent in larger schools.)	yes	If <i>yes</i> , no action. If <i>no</i> , paragraph 4 should disclose the inadequate base financial records as a weakness. Paragraph 5 should explain the steps being taken to rectify the position.
Did we take appropriate action on all significant matters raised in reports from the internal auditor?	yes	If <i>yes</i> , no action. If <i>no</i> , ensure this decision is justified. If, after reflection, it is considered that some action needs to be taken, describe this briefly in paragraph 5.

Did we review a risk assessment and taken appropriate steps to manage the risks identified including the introduction of internal controls and/or external insurance cover where required?	yes	If <i>yes</i> , no action. If <i>no</i> , the need to conduct a comprehensive risk assessment should be noted in paragraph 4. Paragraph 5 should explain the steps being taken.
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Question	Agreed Yes or No	Implication of the Answer
Control activities required after the end of the financial year		
<p>Has the Headteacher confirmed that he/she has seen a reconciliation of the school's base financial records with the latest CFR Return (either prepared from the school's own system or by the local authority) and Financial Summary that shows they are:</p> <ul style="list-style-type: none"> • a complete record of the School's transactions for the year and that the two documents are consistent with each other? • based on financial records that have met the requirements of the DfES' Consistent Financial Reporting (CFR) framework? 	yes	<p>If <i>yes</i>, no action.</p> <p>If <i>no</i>, to the first question, make arrangements for the Headteacher to complete/review the reconciliation before the SIC is signed and published.</p> <p>If <i>no</i> to the second question, the non-compliance should be noted at paragraph 4 as a weakness. Paragraph 5 should explain the steps being taken to rectify the position.</p>
<p>Have we undertaken a thorough self-evaluation of the internal control systems in operation during the year and did not find any weaknesses that needed to be addressed as a high priority?</p>	yes	<p>If <i>yes</i> to either question, no action.</p> <p>If <i>no</i> to both questions, either:</p> <ul style="list-style-type: none"> • delay signing the statement until you have received the report or undertaken the self-evaluation <p>OR</p> <ul style="list-style-type: none"> • if the report or the self-evaluation has identified weaknesses that need to be addressed as a high priority, list them at paragraph 4 and briefly explain in paragraph 5, the action planned to rectify them.
<p>Are we confident that there are no significant litigation, liabilities or commitments that have arisen after the year-end, and are not referred to or accounted for in the published financial summaries?</p>	yes	<p>If <i>yes</i>, no action.</p> <p>If <i>no</i>, consider if the accounts need adjusting in order to be complete, or whether a Contingent Liability or Gain disclosure note should be added and the Local Authority Finance Department informed.</p>
<p>Have we been advised that there has been no actual or potential non-compliance with laws, regulations and codes of practice that could reduce the school's ability to meet its objectives or cause the school to incur a financial loss, and is this supported by our own knowledge of the school and its activities?</p>	yes	<p>If <i>yes</i>, no action.</p> <p>If <i>no</i>, add the appropriate disclosure notes to the income and expenditure account before it is signed and published.</p>

Notes:

- Given the s151 officer has ultimate responsibility for the internal control systems of the whole authority it will be necessary to report the details of any "No" answers to him or her or more realistically to a representative of the s151 Officer.
- The completed internal controls self-evaluation should be copied to the Local Authority internal audit section to inform its risk assessment and audit planning processes