The Bishop Konstant Catholic Academy Trust

Learning Communities, Inspired by Faith

Trust Risk Management & Internal Scrutiny Strategy

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POLICY DOCUMENT	Risk Management & Internal Scrutiny Strategy
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Lead Member of Staff:	Trust Governance Manager
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Version	**Date**	**Author**	**Changes**
1.7	16/03/23	Trust Governance Manager	Para 2 onwards and appendix 2 added to reflect internal scrutiny requirements and reporting.
1.6	09/05/22	Trust Governance Manager	Wording of paras. 1.3 and 1.4 strengthened to incorporate WMDC's Corporate Risk Manager comments.
1.5	11/10/21	Trust Governance Manager	Controlling risk (1.7) page 6 – table updated to reflect timescales for review of risk management register.
1.4	11/10/21	Trust Governance Manager	Review against Academy Trust Handbook 2021 and associated ESFA Academy Trust Risk Management Guidance (Aug. 2021). No updates needed.
1.3	20/10/20	Trust Governance Manager	Defining impact (d) page 5 – removal of text: 'These types of risk are likely to have a major financial impact'.
1.2	20/10/20	Trust Governance Manager	Review against ESFA Academies Financial Handbook 2020. No updates needed.
1.1	20/01/20	Trust Governance Manager	Updates to comply with Academies Financial Handbook 2019 (para. 1.2); inclusion of Technological Risk (1.5 and Appendix 1); clarification of 'Definition of Impact' (para. 1.6) and amendment of Trust Board/Trust Central Team review timescales throughout.
1.0	01/10/18	Trust Governance Manager	Original Document

All policies are written in line with our Trust Mission statement:

With Jesus Christ at the centre of the life of the Trust, we seek to provide learning communities offering the highest possible standards of education. We are committed to working in partnership and trust for the common good. We strive to encourage and empower children and young people to recognise and realise their God-given potential and to discern their vocation in life. As learning communities inspired by faith, we celebrate achievement, offering each other challenge and support, as together we follow Christ in self-giving love and service.

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Trust Risk Management & Internal Scrutiny Strategy

1.1 Purpose of the Risk Management Strategy

The aim of this strategy is to identify an overall approach to risk management that addresses the risks faced by the Bishop Konstant Catholic Academy Trust (BKCAT) in the achievement of its objectives within the BKCAT Business Strategy and 3 Year Operational Plan.

The purpose of identifying, managing and monitoring risk is to identify, assess and control uncertainty and, as a result, continue to improve. Risk management is a continual activity.

1.2 Risk Management Compliance

The Academy Trust Handbook states that:

- the Trust must manage risks to ensure its effective operation and must maintain a risk register. The Trust's management of risks must include contingency and business continuity planning;
- the Trust must have adequate insurance cover in compliance with its legal obligations or be a member of the academies risk protection arrangement (RPA). Not all risks are covered in the RPA. BKCAT is a member of the RPA;
- the Trust should consider the RPA unless commercial insurance provides better value for money. If the Trust is not a member of the RPA, it should determine its own level of commercial insurance to include buildings and contents, business continuity, employers' and public liability insurance and other cover required;
- the Trust must co-operate with risk management auditors and risk managers, and implement reasonable risk management audit recommendations made to them.

The Charities Commission guidance document 'Charities and Risk Management (CC26)' outlines the basic principles and strategies that can be applied to help charities manage their risks. The guide supports Directors in setting a framework that allows them to:

- identify the major risks that apply to their charity;
- make decisions about how to respond to the risks they face;
- make an appropriate statement regarding risk management in their annual report.

1.3 What is a risk?

A risk is defined as the possibility of an event occurring that will impact on the achievement of objectives and priorities. It includes risk as an opportunity as well as a threat.

1.4 Risk Appetite

"Risk Appetite" is an expression of how much risk an organisation is prepared to take and manage to an acceptable level without overtreating. It can vary over time and from work area to work area. If the Trust's risk appetite is clearly articulated, staff can take this into account when making their decisions. Where the level of risk is considered to be outside the approved Risk Appetite, then the Trust Board will consider as a matter of urgency what further steps are required to mitigate this level of risk.

1.5 Identifying risk

Risks are identified by reference to the objectives within the BKCAT Strategic Plan.

It is the collective responsibility of the Trust Central Team/Risk Owners to determine how these risks are evaluated and mitigated in the BKCAT Risk Register.

BKCAT has identified the following categories of risk:

- Educational Risks
- Financial Risks
- Governance Risks
- Human Resources Risks
- Operational Risks
- Reputational Risks
- Technological Risks

It is accepted that some risks may cut across more than one category.

BKCAT has a medium level tolerance to risk. All risk, regardless of severity, will be monitored. More extensive actions will be put in place depending on the impact or probability of the risk occurring.

Newly identified risks should be logged on the BKCAT Risk Register.

1.6 Assessing risk

Once a risk has been identified and logged, the impact and likelihood of the risk should be estimated. BKCAT assesses risk by considering:

a) The likelihood of the risk occurring (unlikely, possibility, likely, highly likely); and
b) The impact should the risk occur (minimal, minor, significant, major).

Defining likelihood

a) *Unlikely* is a risk that could happen but is more unlikely (less than 50%) based on current circumstances.
b) *Possibility* is when there is a 50:50 chance of a risk occurring.
c) *Likely* is where there is more than 50% chance a risk will occur.
d) *Highly likely* is where there is a high chance of a risk occurring (more than 80%).

Defining impact

a) *Minimal impact* is where, should a risk occur, it is likely to have a slight impact on the delivery of BKCAT objectives, Mission or company finance, however this risk will not impact on success. In many cases, this kind of risk can be accepted.
b) *Minor impact* is where, should a risk occur, it will have a notable impact on the delivery of a BKCAT objective, Mission or company finance. Mitigating action may need to be planned in case of a minor risk.
c) *Significant impact* is where, should a risk occur, it will have a wide-reaching impact on more than one objective and will require some re-profiling of resources and finance to mitigate.
d) *Major impact* are risks that are likely to cause disruption to BKCAT's core business and/or Mission and involve significant business re-planning and resourcing to prioritise and mitigate.

The overall cumulative prioritisation of risk needs to be assessed using a combined assessment of both likelihood and impact. By combining likelihood and impact scores, BKCAT can prioritise risk and agree mitigating actions and risk owners.

The Map for Assessing Risk is shown in **Appendix 1**. Once action is taken to mitigate each risk a risk score is applied, and colour coded.

The BKCAT Risk Register will be subject to bi-annual review by the Trust Central Team and the Trust Board's Resources and Risk Management Committee and annual review by the Trust Board.

1.7 Controlling risk

Depending on the level of cumulative risk score, risks may be accepted, monitored or mitigated as shown in the table below:

Cumulative risk score	Action required
1,2,3 – Low level risk	**Accept** risk - Monitor and mitigate within options available in agreed business plan. Monitor through Trust Central Team/Risk Owners on a bi-annual basis, with more frequent review during periods of heightened risk. Review annually at Trust Board (or appropriate committee).
4 and 6 – Medium level risk	**Monitor** risk - Plan additional mitigating actions to reduce likelihood of risk occurring. Monitor through Trust Central Team/Risk Owners on a bi-annual basis, with more frequent review during periods of heightened risk. Review annually at Trust Board (or appropriate committee).
8+ - High level risk	**Mitigate** risk - Identify counter measures as soon as possible. Monitor through Trust Central Team/Risk Owners on a bi-annual basis, with more frequent review during periods of heightened risk. Review termly at Trust Board (or appropriate committee).

1.8 Reporting requirements

All reports presented to the Trust Board should include cumulative risks. Reports should aid Directors in understanding the changes in risk profile.

The Risk Management Strategy and Risk Register will be approved annually by the Trust Board (or appropriate committee).

1.9 Annual review of risk management effectiveness

The core risks will be reported to the Trust Board (or appropriate committee) as detailed in sections 1.7 and 1.8 of this report.

In addition, a review will be undertaken by the Trust Board at least annually to consider:

- consistency in approach to risk management;
- whether risk management continues to be linked to the achievement of the Trust's strategic objectives;
- the appropriateness of the Risk Register;
- whether risk assessment and risk-based internal control are embedded in ongoing operations and form part of the Trust's culture;
- changes in the nature and extent of fundamental risks and the Trust's

ability to respond to changes since the last assessment;
- the scope and quality of monitoring systems and processes;
- the extent and frequency of reports to the Trust Board (or appropriate committee);
- the incidence of any fundamental control failings or weaknesses identified at any point within the year and the impact that they have or could have on financial results; and
- the effectiveness of the overall approach to risk management and whether changes or improvements to processes and procedures are necessary.

2.0 Internal Scrutiny and Risk Management

2.1 Purpose of internal scrutiny

The Academy Trust Handbook requires all trusts to have a programme of internal scrutiny to provide independent assurance to the Trust Board that its financial and non-financial controls and risk management procedures are operating effectively.

2.2 Approach

Internal scrutiny must focus on:

- evaluating the suitability of, and level of compliance with, financial and non-financial controls. This includes assessing whether procedures are designed effectively and efficiently, and checking whether agreed procedures have been followed
- offering advice and insight to the board on how to address weaknesses in financial and non-financial controls, acting as a catalyst for improvement, but without diluting management's responsibility for day to day running of the trust
- ensuring all categories of risk are being adequately identified, reported and managed.

The Trust must identify on a risk basis (with reference to its risk register) the areas it will review each year, modifying its checks accordingly. For example, this may involve greater scrutiny where procedures or systems have changed.

2.3 Working with other assurance providers

Internal scrutiny should take account of output from other assurance procedures to inform the programme of work. For example, it should have regard to recommendations from the Trust's external auditors as described in their management letter, and from relevant reviews undertaken by the ESFA.

2.4 Independence and objectivity

Independence in internal scrutiny must be achieved by establishing appropriate reporting lines, whereby those carrying out checks report directly to a committee of the board, which in turn provides assurance to the Directors.

2.5 Directing Internal Scrutiny – Audit and Risk Committee (In BKCAT, Resources & Risk Management Committee)

The Academy Trust must establish an audit and risk committee, appointed by the Trust Board. Academy Trusts, with an annual income over £50m must have a dedicated audit and risk committee. In BKCAT where annual income is below £50m, the audit and risk committee is combined with the Resources & Risk Management Committee.

The Committee must:

- oversee and approve the trust's programme of internal scrutiny
- ensure that risks are being addressed appropriately through internal scrutiny
- report to the board on the adequacy of the Trust's internal control framework, including financial and non-financial controls and management of risks.

Membership of the Committee:

- Employees of the trust should not be audit and risk committee members, but the Accounting Officer and Chief Financial Officer should attend to provide information and participate in discussions.
- The Chair of the Trust Board should not be chair of the audit and risk committee. Where the finance committee and audit and risk committee are separate, the chair should not be the same.
- Where the audit and risk committee is combined with another committee, employees should not participate as members when audit matters are discussed.

The Committee must:

- have written terms of reference describing its remit
- agree a programme of work annually to deliver internal scrutiny that provides coverage across the year
- review the ratings and responses on the risk register to inform the programme of work, ensuring checks are modified as appropriate each year
- agree who will perform the work

The Committee's oversight must extend to the financial and non-financial controls and risks at constituent academies.

Oversight must ensure information submitted to DfE and ESFA that affects funding, including pupil number returns and funding claims (for both revenue and capital grants) completed by the Trust and by constituent academies, is accurate and in compliance with funding criteria.

2.6 Delivering Internal Scrutiny

Principles:

Internal scrutiny must:

- be independent and objective – for example it must not be performed by the trust's own accounting officer, chief financial officer or other members of the senior leadership or finance team.
- be conducted by someone suitably qualified and experienced and able to draw on technical expertise as required
- be covered by a scheme of work, driven and agreed by the audit and risk committee (In BKCAT, Resources & Risk Management Committee), and informed by risk
- be timely, with the programme of work spread appropriately over the year so higher risk areas are reviewed in good time
- include regular updates to the audit and risk committee by the person(s) or organisation(s) carrying out the programme of work, incorporating:
  - a report of the work to each audit and risk committee meeting, including recommendations where appropriate to enhance financial and non-financial controls and risk management
  - an annual summary report to the audit and risk committee for each year ended 31 August outlining the areas reviewed, key findings, recommendations and conclusions, to help the committee consider actions and assess year on year progress.

Whilst the audit and risk committee is responsible for overseeing the internal scrutiny, the findings must also be made available to all Directors promptly

Options:
The Trust must deliver internal scrutiny in the way most appropriate to its circumstances.

Options include:

- employing an in-house internal auditor
- a bought-in internal audit service from a firm, other organisation or individual with professional indemnity insurance
- the appointment of a non-employed trustee
- a peer review by the chief financial officer from another academy trust. The trust should satisfy itself that the trust supplying the reviewer has a good standard of financial management and governance and should minute the basis for its decision. The peer reviewer should be independent of the trust.

The Trust may combine the above options. The Trust may also use other individuals or organisations where specialist non-financial knowledge is required.

To ensure those carrying out the programme of internal scrutiny work are suitably qualified and/or experienced:

- auditors should be members of a relevant professional body
- trustees and peer reviewers performing the work should have qualifications in finance, accounting or audit, and appropriate internal audit experience. Trusts should work towards this position where it is not already the case.

Trusts should note that the Financial Reporting Council's Ethical Standard states that a firm providing external audit to an entity shall not also provide internal audit services to it. In order to minimise threats to objectivity and independence in the internal scrutiny of academy trusts, ESFA considers that the term internal scrutiny must be viewed in the same way as internal audit.

The trust must keep its approach to internal scrutiny under review. If it changes in size, complexity or risk profile, it should consider whether its approach remains suitable.

External reporting and transparency:
The trust must confirm in its governance statement, accompanying its annual accounts, which of the internal scrutiny options it has applied and why. The outcome of the work must also inform the accounting officer's statement of regularity in the annual accounts.

The trust must submit its annual summary report of the areas reviewed, key findings, recommendations and conclusions to ESFA by 31 December each year when it submits its audited annual accounts. If the trust uses additional individuals or organisations where specialist non-financial knowledge is required, as permitted, it should reflect their findings, recommendations and conclusions as part of the summary document submitted to ESFA. The trust must also provide ESFA with any other internal scrutiny reports if requested.

2.7 Internal Scrutiny Link to Risk Management

The planning of the programme of internal scrutiny must be a risk-based exercise. The programme of internal scrutiny will be informed by the trust's risk register, which is owned by the Trust Board, with advice from the Resources & Risk Management Committee. The risk review process is iterative and the findings of the programme of internal scrutiny in turn inform the risk register. Risk scores are influenced by internal scrutiny work and risks are updated accordingly.

2.8 Coverage of Internal Scrutiny

An internal scrutiny programme will have financial control systems at its core and will include the evaluation of controls and some testing of controls by a sample of transactions. Scrutineers will also want to review other key areas including, financial governance and oversight, IT systems and cyber security. Additionally, they might consider less obvious topics such as organisational culture, management information, or succession planning. Sometimes it may be necessary to work with subject-matter experts in such areas. Any financial or non-financial system that impacts on the effective operation of a trust may be included in scope of the review programme if the audit and risk committee agree.

2.9 What the internal scrutineer should 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 internal scrutineer will break down the organisation by each area of operation and then assess the risk of each by considering several factors, such as:

- monetary value (income and expenditure)
- volume of transactions
- complexity of the system
- sensitivity of the system
- stability of the system
- changes in senior management/strategic roles, for example Accounting Officer (AO), Chief Financial Officer (CFO)
- potential fraud risks
- the strength of management controls
- whether work has been carried out on that system recently

The process is a form of risk assessment which results in a list of potential scrutiny areas along with their respective scores. These are then ranked with the highest scoring systems at the top. Those with the highest scores usually warrant inclusion in the programme of checking for each visit, whereas those with low score may feature less frequently. The schedule of potential work is then presented to the audit and risk committee for consideration, challenge and sign-off.

A suggestion for the business systems and processes that might fall within the scope of an audit is set out in the ESFA's 'Internal Scrutiny in Academy Trusts' and includes: cash and bank, procurement, monthly financial closedown, payroll and HR, efficiency/funding & budgets, fraud/theft & bribery, safeguarding & whistleblowing, management information & reports, data & IT issues, premises issues, governance structures, business continuity & disaster recovery (this list is not exhaustive). Each of these systems and processes can impact the outcomes for pupils, albeit sometimes indirectly. Both the board, audit and risk committee and senior leadership team (SLT) must ensure that they have an effective internal control environment.

Failure to ensure proper internal control over key business processes may result irregular activity occurring, triggering an intervention by ESFA or a modification of the external auditor's regulatory opinion.

2.10 Reporting the findings of the programme

The audit and risk committee will require the internal scrutineer to report back on their work. The Academy Trust Handbook requires the committee to meet at least 3 times a year and to consider any reports from the internal scrutineer when they meet.

The Academy Trust Handbook requires the internal scrutineer to provide the audit and risk committee with an annual internal scrutiny report, and for the trust to submit a copy to the ESFA by 31 December each year. This will summarise the areas reviewed, key findings, recommendations, management response and overall conclusions. Preparing this summary report during the autumn term, at the same time as the external auditor's report, will enable the audit and risk committee to form a holistic picture and the trust to coordinate the returns required by the ESFA. It will also provide the Accounting Officer with key evidence to enable them to sign off their statement on regularity, propriety and compliance and the board with information for its annual governance statement, both of which are submitted to ESFA with the audited accounts.

Appendix 2 outlines the instructions provided to internal scrutineers at the point of engagement to ensure compliance with reporting arrangements.

The Trust must also provide ESFA with any other internal scrutiny reports, if requested.
The committee can also ensure appropriate liaison between the internal scrutineer and external auditor, with the work of the former providing evidence to assist the latter in forming their audit opinion, so potentially reducing the cost of the external audit.

2.11 Suggested format for the internal scrutiny 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)
    - Itemised works
        - 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)

2.12 Summary

The purpose of internal scrutiny is to provide the board (and ESFA) with assurance that the trust's system of internal control is effective and contributes to strong governance, risk management and control arrangements at the trust.

Trusts must carry out their programme of internal scrutiny, report on it to their audit and risk committee and provide an annual report to ESFA. The AFH provides trusts with options for delivering the programme of internal scrutiny but does not mandate the areas that must be reviewed. This will always be a matter for the trust, to be informed by its risk register and agreed by its audit and risk committee.

An effective independent internal scrutiny function should provide real value to the trust.

Monitoring and Review of this Policy
The Trust shall be responsible for reviewing this policy from time to time to ensure that it meets legal requirements and reflects best practice.

Appendix 1

MAP FOR ASSESSING RISK

			Likelihood of Risk Occurring			
			1	2	3	4
			Unlikely	Possibility	Likely	Highly Likely
Impact if Risk Occurred	4	Major Impact	4	8	12	16
	3	Significant impact	3	6	9	12
	2	Minor Impact	2	4	6	8
	1	Minimal Impact	1	2	3	4

a) Educational Risks
b) Financial Risks
c) Governance Risks
d) Human Resources Risks
e) Operational Risks
f) Reputational Risks
g) Technological Risks

Low risks (green)
Medium risks (amber)
High risks (red)

Guidance for Internal Scrutineers

Background

The Academy Trust Handbook requires all trusts to have a programme of internal scrutiny to provide independent assurance to the Trust Board that its financial and non-financial controls and risk management procedures are operating effectively.

The purpose of internal scrutiny is to provide the Trust Board with assurance that the Trust's system of internal control is effective and contributes to strong governance, risk management and control arrangements at the trust.

Bishop Konstant Catholic Academy Trust (BKCAT) requires the internal scrutineer to report back on their work in a way that will support external reporting to the Education & Skills Funding Agency (ESFA), as outlined below:

Format of the scrutineer's 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)
    - Itemised works
        - Overall opinion
        - *Recommendations (High/Medium/Low)
        - Management response
- Follow up reviews of earlier work including any outstanding recommendations

*Include an explanation of what the high, medium and low priority ranking means in the context of the review and recommended timescale for completion of each action.