

DIXONS ACADEMIES TRUST

Internal Audit Annual Conclusion 2022-23

CONTENTS

Executive Summary	3
Review of 2022-23 Work	6
Thematic Reporting	7
Internal Audit Conclusion	9
Reconciliation to Operational Plan	10
Appendices:	
I Definitions	12

Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

EXECUTIVE SUMMARY

Background

Our role as independent assurance providers is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The assurance provided through the out-sourced internal audit plan forms part of the internal scrutiny framework at Dixons Academies Trust.

Responsibilities

BDO LLP has been engaged as independent assurance providers by Dixons Academies Trust (Dixons) to provide the Trust Board (via the Audit and Risk Committee), the Chief Executive Officer and other managers with assurance on the adequacy of the risk management, corporate governance and internal control activities of Dixons.

Responsibility for these arrangements remains fully with Management, who should recognise that as independent assurance providers, we can only provide 'reasonable assurance' and cannot provide any guarantee against material errors, loss of fraud. Our role at Dixons is also aimed at helping Management to improve risk management, governance and internal control, so reducing the effects of any significant risks facing the organisation.

Our risk evaluations and tests are designed to ensure that controls are sound both in design and effective in operation. Our conclusions are based on samples selected from the year's transactions to date. However, our conclusions should not be taken to mean that all transactions have been properly authorised and processed.

Approach

We have conducted the audits set out in the 2022-23 Internal Audit Programme, as approved by the Audit and Risk Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. One change was made in year, (Incident Management replaced with Risk Management Phase 1). Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards and the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the planning documents agreed with Dixons Management for each review, by:

- ▶ Considering the risks that have been identified by Management as being associated with the processes under review;
- ▶ Reviewing the written policies and procedures and holding discussions with Management to identify process controls;
- ▶ Evaluating the risk management activities and controls established by Management to address the risks it is seeking to manage;
- ▶ Performing the risk management activities and controls established by Management to address the risks it is seeking to manage;
- ▶ Performing walkthrough tests to determine whether the expected risk management activities and controls are in place; and
- ▶ Performing compliance tests (where appropriate) to determine either that the risk management activities and controls have operated as expected during the period.

The conclusion provided on **Page 9** of this report is based on historical information and the projection of any information or conclusions contained in our assurance statement to any future periods is subject to the risk that changes may alter its validity.

EXECUTIVE SUMMARY

Coverage

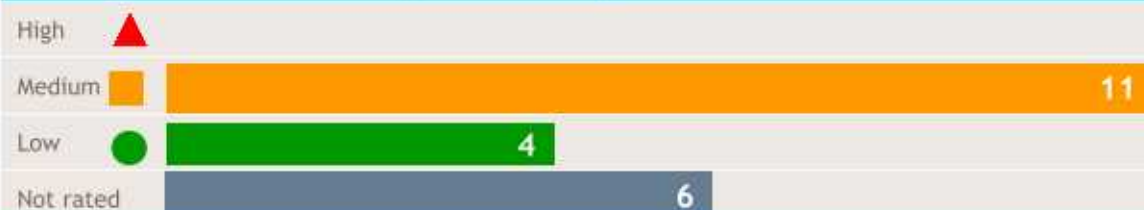
During 2022-23, BDO LLP has reviewed the following areas across Dixons Academies Trust:

- ▶ Capital Process
- ▶ New Academies (Advisory)
- ▶ Governance (Advisory)
- ▶ Risk Management (phase 1)
- ▶ Follow up

Recommendations

To assist management in addressing our findings, we categorise our recommendations according to their level or priority. There were 15 recommendations made in total across the 3 reviews (excluding new academies and annual follow up) finalised as part of the 22-23 Internal Audit Programme. This is an increase over recommendations made during 21-22 where there were 3 recommendations overall (1 medium, 2 low) across 4 reviews.

Summary of Recommendations (SEE APPENDIX I)



Total number of recommendations: 21

EXECUTIVE SUMMARY

Follow Up

In accordance with the Annual Internal Audit Plan, we have undertaken a follow up of outstanding recommendations raised from previous reviews that had been marked as completed and were due at the time of review. There were 19 recommendations tested during this review; in each case the implementation date had passed:

- ▶ 14 recommendations (73%) have been fully implemented;
- ▶ One recommendation (5%) has been partially implemented; and
- ▶ Four recommendations (21%) where the risk of not taking any management action has been accepted.

Relationship with external audit

All our final reports are available to the external auditors through the Audit and Risk Committee papers and are available on request.

Conflicts of interest

We have not undertaken any work or activity during 2022-23 that would lead us to declare any conflict of interests.

Annual attestation of independence

The independent assurance function is independent and objective. In accordance with Attribute Standards 1100, 1120 and 1130 of the International Professional Practices Framework, we undertake our work with an impartial, unbiased attitude, avoid conflicts of interest and perform engagements in such a manner that there are no quality compromises and judgement on audit matters is not subjugated to others. In year we have not acted in any management capacity or taken on any responsibility for the operations of your organisation. If the independence or objectivity of the independent assurance service is ever impaired, details of the impairment will be disclosed to either the CEO/their delegate, or the Chair of the Audit and Risk Committee, dependent upon the nature of the impairment.

Reporting mechanisms and practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit and Risk Committee is to agree reports with Management and then present and discuss the matters arising at the Audit and Risk Committee meeting.

Management action on our recommendations




Management have been conscientious in review and commenting on our reports. Management have responded positively and responses indicate that appropriate steps to implement our recommendations are being put in place.

REVIEW OF FY23 WORK

Summary of work performed

Details of the reviews completed to date have been reported to the Audit and Risk Committee throughout the year and have been discussed with consideration and scrutiny of management responses and timescales proposed.







For the purpose of this annual report, we set out below our summary assessment of the effectiveness of the risk management arrangements in each of the areas reviewed.

Reports Issued	Overall Report Conclusions				
				Design	Operational Effectiveness
Capital Process	-	3	2	Substantial	Substantial
Governance	-	4	-	N/A - Advisory	
Risk Management (phase 1)	-	4	2	Limited	Limited
New Academies	N/A - Advisory - 6 findings not priority rated				
Follow Up	N/A - Follow Up				

THEMATIC REPORTING

The themes considered throughout FY23

Throughout the 2022-23 Internal Audit Programme, we have presented key findings against six core themes with RAG ratings assigned to show the correlation of findings in each thematic area. Broadly, these themes were considering the following key questions:

Area	Principle
 Strategic Alignment and Reporting	<p>▶ Is the area under review coherent with the overall Dixons strategic objectives, and is reporting sufficient and appropriate to enable effective oversight at a strategic level?</p>
 Controls & Assurance	<p>▶ What first/second line controls are in place, and are these offering adequate comfort? Does the business obtain assurance from other sources? Is the overall control framework fit for purpose?</p>
 Documentation	<p>▶ What is the quality of the documentation? Is it user friendly, accessible, and easily understood? Where are documents stored? Are policies up to date?</p>
 Systems & Data Quality	<p>▶ Is there good quality of data and a 'single version of the truth'? Which systems are used to maintain data integrity? Do the right people have access?</p>
 Resources	<p>▶ Where does responsibility sit? Do they have sufficient capacity? Are people appropriately skilled and trained? Are there any cultural issues to note?</p>
 Innovation and Efficiency	<p>▶ How is Dixons continually developing in this area? Are lessons learned exercises undertaken and acted upon? Are there future looking strategies and improvement plans?</p>

THEMATIC REPORTING

STRATEGIC ALIGNMENT & REPORTING

- ▶ Generally, each assurance area reviewed mapped across to the strategic risks of the organisation and there was a thread back to the objectives of the organisation. Regular reporting to those charged with governance has taken place, as seen in our Governance and Capital Process reviews. Development of an agreed risk appetite as recommended in our risk management review, will further enable Dixons to meet its strategic objectives. There is further maturing required over key governance and risk management processes to support strategic objectives.

CONTROLS & ASSURANCE

- ▶ In the majority of cases, first and second line controls are in place for key processes to confirm adherence to internally set policy. This includes compliance with the scheme of delegation and internal approval limits for capital spend.
- ▶ However, exceptions were noted where controls could be further strengthened. For example, formalisation of the process for risk escalation from individual academies to the Trust level as identified in our risk management review.

DOCUMENTATION

- ▶ Where processes have been documented, the documentation is accessible and easily understood. The quality of policies and processes are generally good and can be easily accessed and utilised.
- ▶ We noted in our governance review that Board and Committee papers would benefit from having briefing or covering notes - in order to assist members in focusing on the key issues and matters raised. Core directive documents and audit trails could be strengthened in some areas to evidence more effective risk management and governance.

SYSTEMS & DATA QUALITY

- ▶ Spreadsheets are used as the primary store for information for a number of processes, such as tracking internal audit recommendations and for the strategic risk register.
- ▶ Our review of the capital process found that PS Financials was used for invoice approval which enabled a clear audit trail to be maintained.

RESOURCES

- ▶ Our governance review found that members and trustees have a wide range of backgrounds, providing Dixons with a breadth of knowledge and experience amongst those charged with governance.
- ▶ Our governance and risk management reviews identified some areas in which the roles and responsibilities of individuals and groups/committees could be formalised or clarified further to better serve Dixons. An assessment of adequacy of training has been raised in the governance and risk management audits.

INNOVATION & EFFICIENCY

- ▶ Dixons utilise "What to do" guides to assist new and existing staff with understanding key processes and procedures. In addition, process maps have been developed for some areas including capital expenditure.

THEMATIC SUMMARY

There were few findings throughout the year that related to systems and data quality or innovation and efficiency due to the nature of the audits this year. Looking across the work we have completed, the themes where more recommendations have focused include, controls and assurance, documentation, resources and Strategic alignment & reporting. Some key recommendations, accepted by management, to improve risk management and governance and aid clarity of the audit trails to demonstrate decision making will be followed up in 2023-24.

INTERNAL AUDIT CONCLUSION

Report by BDO LLP Dixons Academies Trust

As the provider of independent assurance services to Dixons Academies Trust we are required to provide the Audit and Risk Committee and the Chief Executive Officer with an opinion on the adequacy and effectiveness of the risk management, control and governance processes.

In giving our conclusion it should be noted that the assurance can never be absolute. The internal audit service provides the Trust with reasonable assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2022-23. Therefore, the conclusion is not a guarantee that all aspects of the internal control system are adequate and effective. The conclusion should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control. In forming our conclusion, we have taken into account:

- ▶ All reviews undertaken during the year reported upon
- ▶ Any follow-up action taken in respect of reviews from previous periods
- ▶ Management action in implementing recommendations
- ▶ Any significant recommendations not accepted by management and the consequent risks
- ▶ The effects of any significant changes in the organisation's objectives or systems
- ▶ The proportion of the organisation's assurance needs covered to date.

Conclusion

The work of Internal Audit forms part of the wider internal scrutiny at the Trust. In our opinion, based on the reviews undertaken, the follow up review completed during the period, and in the context of materiality, there are mechanisms in place to **contribute to the achievement of** risk management, control and governance objectives. However, in most reviews undertaken, enhancements to design and operating effectiveness were noted.

Areas of strategic importance were included in this year's internal audit plan, and whilst some of the reviews (governance and new academies) were advisory, no high significance recommendations were raised.

The risk management assurance review resulted in limited assurance for design and effectiveness which has not been followed up in year due to timing of the audit and implementation dates of management responses. We did note areas of good practice in relation to management of risk in other reviews, including the capital process (a documented five-year plan, robust approval mechanisms, reconciliation and reporting) and through the follow up activity.





The IT-focussed review was postponed from the annual plan due to the cyber incident and ongoing work to review controls in this area internally and using third party advice, but will form part of the 2023-24 Internal Audit Plan.

RECONCILIATION TO OPERATIONAL PLAN




Internal audit completed the number of reviews set out in the 2022-23 plan. One audit (IT Incident Management) was postponed to 2023-24 audit year and replaced with an assurance review of Risk Management Phase 1 (Risk Management Framework). Phase 2 is expected to be completed in 2023/24 and is expected to cover risk appetite, risk reporting and wider risk identification and assurance mapping processes. This change in year was due to the cyber incident and other advisory activity in this area.

Review	Budget Days	Actual Days	Scoping	ToR	Debrief	Draft Report	Final Report	ARC
Capital Process	8	8	✓	✓	✓	✓	✓	September 2023
Governance	7	8	✓	✓	✓	✓	✓	September 2023
Risk Management (phase 1)	-	6	✓	✓	✓	✓	✓	September 2023
New Academies	8	12	✓	✓	✓	✓	✓	September 2023
Follow up	3	3	✓	✓	✓	✓	✓	September 2023
IT Incident Management	6	-	Postponed to 2023-24 (replaced with Risk Management Phase 1)					

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance

High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:

NATAILE HINCHCLIFFE, DIRECTOR

+44 (0) 7583 144 918

Nataile.Hinchcliffe@bdo.co.uk

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP or any of its partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO member firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright © November 2023 BDO LLP. All rights reserved. Published in the UK.

www.bdo.co.uk