
Report To: Inverclyde Integration Joint Board Audit Committee **Date:** 12 September 2017

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Subject: INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2016/2017

1.0 PURPOSE

1.1 The purpose of this report is to present the Internal Audit Annual Report and Assurance Statement for 2016/2017, which forms part of the Integration Joint Board's Annual Governance Statement.

2.0 SUMMARY

- 2.1 The Internal Audit Annual Report 2016/2017 is attached as an Appendix to this report for consideration by the Committee. The report concludes that the majority of the IJB's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit. Appendix 1
- 2.2 A follow up process has been established to monitor management's progress in implementing agreed action plans arising from Internal Audit reviews.

3.0 RECOMMENDATION

3.1 It is recommended that the Audit Committee considers and approves the Internal Audit Annual Report and Assurance Statement.

Louise Long
Corporate Director (Chief Officer)
Inverclyde Health & Social Care Partnership

4.0 BACKGROUND

4.1 Government Internal Audit Standards (“GIAS”) require that the Chief Internal Auditor provides a written statement to the Section 95 Officer to support the Annual Governance Statement. This report should present an opinion as to the overall adequacy and effectiveness of the organisation’s internal control environment.

4.2 The report should also:

- Disclose any qualifications to that opinion, together with reasons for the qualification;
- Present a summary of the audit work undertaken to formulate the opinion including reliance placed on the work by other assurance bodies;
- Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the statement on internal control; and
- Compare the work undertaken with work planned.

4.3 The Accounting Code of Practice (“ACOP”) requires that the Section 95 Officer produces a signed Annual Governance Statement as part of the Council’s Annual Report. This report is subject to External Audit scrutiny as part of the year-end audit process.

5.0 CURRENT POSITION

5.1 The Internal Audit Annual Report 2016/2017 is attached as an Appendix to this report for consideration by the Committee. The report concludes that the majority of the IJB’s established internal control procedures operated as intended to meet management’s control requirements for each area reviewed by Internal Audit.

5.2 A follow up process has been established to monitor management’s progress in implementing agreed action plans arising from Internal Audit reviews.

6.0 IMPLICATIONS

6.1 There are no direct financial implications arising from this report.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

Legal

6.2 There are no direct legal implications arising from this report.

Human Resources

6.3 There are no direct HR implications arising from this report.

Equalities

6.4 There are no direct equalities implications arising from this report.

Clinical or Care Governance Implications

6.5 There are no direct clinical or care governance implications arising from this report.

National Wellbeing Outcomes

6.6 There are no direct national wellbeing outcomes arising from this report.

7.0 CONSULTATIONS

7.1 Not applicable. This report summarises the work carried out during 2016-2017 which have been included in separate progress reports to Audit Committee.

8.0 LIST OF BACKGROUND PAPERS

8.1 Internal Audit Progress Report to the Audit Committee in March 2017.

Internal Audit Annual Report and Assurance Statement 2016/2017

1 June 2017

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SECTION 1 – INTRODUCTION

Purpose of this report

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides a written statement to the s95 Officer timed to support the Annual Governance Statement. This report constitutes the required statement. As required by PSIAS, this report presents the opinion of the overall adequacy and effectiveness of Inverclyde Integration Joint Board (IJB)'s risk management, control and governance processes, based on the work Internal Audit has performed. The scope of internal audit work, the responsibilities of Internal Audit, and the assurance given on the adequacy and effectiveness of the Internal Control System of the IJB are explained further in Section 4 of this report.

Main objectives of the IJB's Internal Audit Team

- 1.2 Internal Audit is an assurance function that primarily provides an independent, objective opinion to the Board on the control environment. The overall objective of Internal Audit is to review, appraise and report on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. A secondary objective is to advise management on improvements in internal control systems.

Scope of the IJB's Internal Audit Team

- 1.3 The scope of Internal Audit allows for unrestricted coverage of the IJB's activities and unrestricted access to records and assets deemed necessary by auditors in the course of an audit.

Acknowledgements

- 1.4 The assistance provided by IJB officers in the course of the work undertaken by Internal Audit during 2016/2017 is gratefully acknowledged.

SECTION 2 – ASSESSMENT OF RISK MANAGEMENT, CONTROLS AND GOVERNANCE

Scope

- 2.1 The work undertaken by Internal Audit in 2016/2017 is summarised in Section 3 of this Report.
- 2.2 The overall assessment arising from work undertaken is summarised in paragraphs 2.3 to 2.4 below. In interpreting this assessment, consideration needs to be given to the respective responsibilities of Management and Internal Audit and the related limitations on the assurance that Internal Audit can provide (as explained in Section 4).

Overall assessment

On the basis of Internal Audit work carried out in 2016/2017, the majority of the IJB's established internal control procedures appeared to operate as intended to meet Management's requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that some recommendations were made by Internal Audit to improve controls.

Other matters

- 2.3 Summaries of the issues arising in relation to each system or activity covered by Internal Audit work in 2016/2017 have been reported separately to the Audit Committee. Appropriate responses to the recommendations made in internal audit reports have been obtained. When actioned, the recommendations made in the Internal Audit reports should provide management with additional comfort that the system of control operates as intended. It is therefore imperative that the agreed actions are implemented by management.
- 2.4 A follow up process is in place which ensures that all actions arising from internal and external audit reviews are captured within a follow up database, and are subject to follow up and validation by the Chief Internal Auditor on a regular basis, with reporting on progress to the Audit Committee.

SECTION 3 – INTERNAL AUDIT WORK CONDUCTED

Internal audit approach

- 3.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards and the agreed Internal Audit annual audit plan.

Progress on the 2016/2017 internal audit plan

- 3.2 The Annual Internal Audit Operational Plan 2016/2017 was discussed and agreed with the Audit Committee on 24 January 2017.
- 3.3 Progress against planned audit work for the year to 31 March 2017 can be summarised as follows:-

Audit Area	Indicative Scope	Status
Review of Governance Arrangements	A report was presented to the Inverclyde IJB meeting on 26 January 2016 which outlined the progress made in implementing the key legislative and other requirements which are necessary to ensure sound governance arrangements are in place for integrated health and social care. Internal Audit will review the current status of the governance arrangements to ensure that these are adequate and effective.	Complete
Audit Planning and Management	Developing the audit universe, liaison with Chief Officer and CFO and attendance at Audit Committee.	Complete
Annual Internal Audit Report	Chief Internal Auditor's annual assurance statement to the Inverclyde IJB.	Complete

- 3.4 The total number of issues raised is set out in the following table:

Report	Red	Amber	Green	Overall Grading
Review of Governance Arrangements	0	0	3	Strong
Total	0	0	3	

Progress on Implementation of Action Plans

- 3.5 Action plans were agreed in relation to the reports generated for the 2016/2017 annual audit plan. The following table sets out the number of actions agreed for each report issued and the status of completion at 30 June as follows:

Report	No of Actions Agreed	No of Actions Complete at 30/6/17	No of Actions Revised at 30/6/17	No of Actions Not Due at 30/6/17
Review of Governance Arrangements	3	0	0	3
Total	3	0	0	3

- 3.6 All actions are subject to ongoing follow up by Internal Audit and are included, where appropriate, within the Internal Audit action plan follow up reports to the Audit Committee on a regular basis.

Reliance from other assurance providers

3.7 During 2016/2017, the following Internal Audit Reports have been issued to Inverclyde Council, which are relevant to the IJB:-

Audit Report	Opinion	Number/Category of Issues		
		Red	Amber	Green
Corporate Health and Safety	Satisfactory	0	4	2
LGBF/SOLACE Indicators	Strong	0	0	3
Corporate Fraud Review – Blue Badge Scheme	Satisfactory	0	2	1

3.8 Actions have been agreed with management and Internal Audit follow up each action when it falls due with regular reporting to the Council’s Corporate Management Team and Audit Committee on the implementation of agreed actions and any matters of concern.

3.9 In addition, corporate fraud investigation reports have been issued as follows:

Year/Ref	Enquiry	Status
15/16 15-04	NFI Match – Payroll to Creditor Information	Complete – report issued and action plan agreed.
16/17 16-03	Potential misuse of Expired Blue Badge	Complete – report issued and action plan agreed.
16/17 16-04	Client Account Discrepancy	Complete – report issued and action plan agreed.
16/17 16-08	Potential Employee Conflict of Interest	Complete – report issued and action plan agreed.
16/17 16-30	Theft of Client Money	In progress.

3.10 The overall audit opinion reported in the Inverclyde Council Internal Audit Annual Audit report was as follows:-

On the basis of Internal Audit work carried out in 2016/2017, the majority of Inverclyde Council’s established internal control procedures appeared to operate as intended to meet Management’s requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls.

3.11 During 2016/2017, the following Internal Audit Reports have been issued to NHS GGC which are relevant to the IJB:-

Audit Report	Opinion	No/Category of Issues		
		High	Medium	Low
Delayed Discharge: Use of Additional Funding	Low Risk	0	2	0
Health and Social Care Partnerships: Governance Arrangements	Low Risk	0	0	4
Risk Management Arrangements	Medium Risk	0	3	1
Clinical Governance	High Risk	0	6	1
Waiting Times/TTG	High Risk	1	2	0
Key Financial Controls – Payroll	Medium Risk	0	3	2
Key Financial Controls – Accounts Payable	Low Risk	0	0	2
Key Financial Controls – General Ledger	Low Risk	0	0	1

3. Progress on the 2016/2017 internal audit plan (Continued)

Audit Report	Opinion	No/Category of Issues		
		High	Medium	Low
Performance Monitoring and Reporting in Acute Services	Low Risk	0	2	0
Complaints Handling Procedures	Low Risk	0	1	3
Key Financial Controls – Endowments	Low Risk	0	0	3
IT Resilience	Medium Risk	1	1	1
Significant Capital Projects Governance and Post Project Evaluation	Medium Risk	0	5	0
Estates – Backlog and Operational Maintenance	Medium Risk	0	3	0
Business Continuity Management – f/up	High Risk	1	2	1
Health and Social Care Integration – Financial and Performance Reporting	Low Risk	0	0	2
IT Project Governance	Medium Risk	0	2	2
Reporting and monitoring arrangements for efficiency savings	High Risk	1	4	0
Capacity Planning – Cancer Services	Medium Risk	0	3	0

- 3.12 Internal Audit undertaken follow up work to confirm the implementation of high risk and a sample of medium risk recommendations. The results of the follow up work is then reported to the Audit Committee with any matters of concern being drawn to the attention of this Committee.
- 3.13 The overall audit opinion reported in the NHSGGC Internal Audit Annual Audit report was as follows:-

Generally satisfactory with some improvements required – Governance, risk management and control in relation to business critical areas are generally satisfactory. However there are some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Reliance by external audit

- 3.14 During the year under review, liaison has taken place with the IJB's External Auditors through joint attendance at the Audit Committee, meetings, ad hoc discussions and the sharing of audit plans and reports. External audit have indicated that they intend to place reliance on specific areas of Internal Audit work for the purposes of their external audit where appropriate.

SECTION 4 – SCOPE, RESPONSIBILITIES AND ASSURANCE

Approach

- 4.1 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards and the agreed annual audit plans. The overall scope of the internal audit work encompasses the IJB's risk management practices, governance practices and internal controls.
- 4.2 The Annual Audit Plan is based on a formal risk assessment which is revised on an ongoing basis to reflect evolving risks and changes within the IJB. The Internal Audit Annual Audit Plan 2016/2017 was discussed and agreed at the Audit Committee on 24 January 2017. In addition, consultation on the content and coverage of the audit plan took place with the Chief Officer and the Chief Financial Officer.

Responsibility and reporting lines of the Chief Internal Auditor

- 4.3 The Chief Internal Auditor reports functionally to the IJB Audit Committee and has a right of access and freedom to report in her own name to all officers and members and particularly those charged with governance. The adoption of these arrangements enables the IJB to conform with the reporting line requirements of the International Standard on Auditing (“ISA”) (UK and Ireland) 610 and the Public Sector Internal Audit Standards which were adopted by Local Government in the United Kingdom on 1 April 2013.
- 4.4 The Chief Internal Auditor also has a specific responsibility to the IJB’s s95 Officer to provide assurances which informs the preparation of the Annual Governance Statement for inclusion in the IJB’s Annual Report and Accounts.

The work of Internal Audit

- 4.5 Internal Audit is an independent appraisal function established by the IJB for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- 4.6 In accordance with the principles of Corporate Governance, the Chief Internal Auditor reports with independence and impartiality to the IJB’s Audit Committee on a regular basis. The Chief Internal Auditor prepares an annual report containing a view on the adequacy and effectiveness of the systems of internal controls.
- 4.7 The Internal Audit team operates in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards. Internal Audit undertakes an annual programme of work approved by the IJB’s Audit Committee. The Annual Audit Plan is based on a formal risk assessment, which is revised on an ongoing basis to reflect emerging risks and changes within the IJB. The Internal Audit Annual Audit Plan for 2016/2017 was discussed and agreed at the Audit Committee on 24 January 2017.
- 4.8 All Internal Audit reports identifying system improvements or non-compliance with expected controls are brought to the attention of management and include recommendations for improvement and agreed Action Plans. It is management’s responsibility to give proper consideration to Internal Audit reports and take appropriate action on audit recommendations. The Chief Internal Auditor is required to confirm that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and accepted the risks of not taking action. Management progress on implementing significant actions, which have been categorised as Red or Amber, is reported to the IJB’s Audit Committee at each committee cycle.

Responsibilities of Management and Internal Audit

- 4.9 It is Management’s responsibility to maintain systems of risk management, internal control and governance.
- 4.10 Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Audit cannot be held responsible for internal control failures.

- 4.11 Internal Audit's role includes assessing the adequacy of the risk management, internal controls and governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of the internal audit assessment

- 4.12 In accordance with Guidance supporting the Public Sector Internal Audit Standards, the assessment on risk management, control and governance is based upon:
- Internal Audit work undertaken by the Internal Audit Team during the year to 31 March 2017 (in accordance with the annual audit plan approved by the Audit Committee);
 - The assessments of risk completed during the preparation and updating of the annual audit plan;
 - Reports issued by Internal Auditors for Inverclyde Council and the NHSGGC;
 - Reports issued by Audit Scotland, the IJB's External Auditors; and
 - Internal Audit's knowledge of the IJB's governance, risk management and performance monitoring arrangements.

Limitations on the assurance that Internal Audit can provide

- 4.13 It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of risk management, control and governance are adequate. The most that internal audit can provide to the s95 Officer and Audit Committee is reasonable assurance based on the work performed.
- 4.14 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from this engagement. These limitations include the possibility of faulty judgment in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 4.15 Organisations and their internal control needs differ by type, size, culture and management philosophy. One organisation's internal control system may be very different from another's in relation to similar processes. Also, decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.