

Midlothian Integration Joint Board



Thursday 15 June 2017 at 2.00pm

MIJB Annual Assurance Report 2016/17

Item number:

Executive Summary

The Local Authority Accounts (Scotland) Regulations 2014 requires the IJB to conduct a review, at least once in a year, on the effectiveness of its system of internal control and include a statement of this review in the Annual Governance Statement.

The purpose of this paper is to report on the audit work undertaken for the Midlothian Integration Joint Board (MIJB) during the financial year 2016/17 and to provide an overall assessment of the adequacy and effectiveness of the MIJB's framework of governance, risk management and control based on that work.

The MIJB is invited to:

- note the contents of the Annual Assurance Report; and
- note that the weaknesses identified with internal controls in 2016/17 will be followed up in 2017/18 and updates will be provided to the MIJB Audit and Risk Committee.

MIJB Annual Assurance Report 2016/17

1. Introduction

The purpose of this paper is to report on the audit work undertaken for the Midlothian Integration Joint Board (MIJB) during the financial year 2016/17 and to provide an overall assessment of the adequacy and effectiveness of the MIJB's framework of governance, risk management and internal control based on that work.

2. Background and main report

2.1 Public Sector Internal Audit Standards (PSIAS)

The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor provides an annual Internal Audit opinion and report that can be used to inform the IJB's overall Annual Governance Statement which is included in the published financial statements. The annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Standards require that an external assessment be conducted at least once every 5 years by a qualified, independent assessor from outside the organisation over the level of compliance against PSIAS. An external assessment was not undertaken in 2016/17 but will be undertaken in 2017/18 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG), which is a sub group of CIPFA.

2.2 Self Assessment of Internal Audit against the Standards

On behalf of the MIJB, the assessment and responsibility for the adequacy of internal controls, governance and risk management arrangements for the operational delivery of services will remain with the Health Board and Council.

A self evaluation of compliance with the Public Sector Internal Audit Standards was undertaken by the Chief Internal Auditor of the MIJB in 2016/17. This evaluation demonstrated that the key elements of the Standards were complied with during the year, but identified a small number of areas where performance could be improved. An action plan has been developed to address these issues and the majority have already been acted upon. It should be noted that the MIJB Audit Plan was limited in scope and therefore the assessment was based on a very restricted number of completed reviews.

2.3 Balanced Scorecard

Performance indicators relating to work undertaken for the MIJB were developed for 2016/17 and these are detailed in Appendix 2.

2.4 Organisational Independence

The Standards state that the Chief Internal Auditor is required to report to the IJB Audit and Risk Committee and have free and unfettered access to the Chief Officer and the Chair of the IJB Audit and Risk Committee. He/she must report to a level within the organisation that allows the Internal Audit activity to fulfil its responsibilities and the Chief Internal Auditor must confirm to the IJB Audit and Risk Committee, at least annually, the organisational independence of the Internal Audit activity.

The reporting line for the Chief Internal Auditor is functionally to the MIJB Audit and Risk Committee. The Chief Internal Auditor met the Chair of the MIJB Audit and Risk Committee, on a one to one basis, on 4 separate occasions during the year, before each MIJB Audit and Risk Committee meeting. Regular meetings have also been held with the MIJB Chief Finance Officer, the MIJB Chief Officer, the Chief Internal Auditor of NHS Lothian and the Chief Executive of Midlothian Council to discuss governance, risk management and internal control matters relevant to the MIJB.

There have been no threats to the independence of the internal audit activity during the period.

2.5 Proficiency and Due Professional Care

The Standards state that internal auditors must possess the knowledge, skills and competencies needed to perform their individual responsibilities and are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications. The Chief Internal Auditor must hold a relevant professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

The role of Chief Internal Auditor during this period was undertaken, on a job share basis, by a CIMA (Chartered Institute of Management Accounts) qualified accountant and a CMIIA (Chartered Member of the Institute of Internal Auditors) qualified auditor. Both managers have public sector and financial services experience.

2.6 Internal Audit Resource

With the current resource, the Chief Internal Auditor is unable to review the entire Audit Universe on a 3 year cycle and therefore concentrated resource on the higher risk areas. One of the job share Chief Internal Auditors left the Council in March 2017 and this post remains vacant. The Council's Internal Audit and Corporate Fraud team are undergoing a service review as part of the Delivering Excellence Programme and this may result in reduced resource going forward. Any changes to the MIJB Internal Audit plan, as a result of the review, will require approval by the MIJB Audit and Risk Committee.

2.7 Internal Audit Work

The internal audit plan for 2016/17 was approved by the MIJB Audit and Risk Committee on 17 March 2016. The Internal Audit Plan was restricted to the following key risk areas:

- Financial Assurance;
- Follow up of outstanding recommendations;
- Follow up of completed recommendations;
- Monitoring of Performance;
- Review of Corporate Governance; and
- Directions to the NHS and Midlothian Council (being undertaken by NHS Lothian Internal Audit Section).

The Internal Audit activities undertaken during 2016/17 and the conclusions arising from that work are set out at Appendix 1. As at the date of writing this report, 4 of the planned audits had been completed and 2 audits are underway (Monitoring of Performance and Directions to the NHS and Midlothian Council). The audit on Directions is being undertaken, on behalf of the MIJB, by NHS Lothian Internal Audit section and is expected to be completed by the end of June 2017. The audit on Performance cannot be concluded until the Annual Performance Report (setting out how effectively the MIJB has improved the National Health and Wellbeing Outcomes described within the Strategic Plan) has been reported. This is due to be reported to the Scottish Government by the end of July 2017.

From the audit work undertaken in 2016/17, we have identified a number of areas that required improvement to internal controls. A review of overdue audit recommendations was undertaken and this highlighted that from a total of 43 recommendations, 20 were overdue. It was reported that the original expected completion dates were too optimistic and new implementation dates were agreed.

The results of our audits were reported to management and the MIJB Audit and Risk Committee and action plans for improvement over controls were agreed on the conclusion of each audit. The recommendations arising from the action plans were loaded into the Council's Covalent system and progress with their implementation is recorded on the system by management. In 2017/18 we will monitor the MIJB's performance in closing the issues raised.

2.8 Code of Corporate Governance

Each year, Internal Audit undertakes a review of the MIJB Code of Corporate Governance and tests a sample of the key elements listed as controls to determine whether they are working in practice. Our testing identified that the control elements were working effectively although we did identify the following:

- the 'Delivering Good Governance in Local Government: Framework' was updated by CIPFA/SOLACE in 2016 but this has not yet been fully embedded;
- the MIJB will have to develop its workforce plans with an emphasis of moving from specialised institution based workforce into a generalised community based workforce;
- the MIJB will need to improve financial planning timescales by moving to a 3 year plan rather than the current position of a detailed 1 year plan with indicative values for the next 2 years;
- 2016/17 is the first full year of operation for the MIJB and performance reports are still being developed; and

- the Scottish Government recommends that the arrangements for the Internal Audit Service provided to the IJB should be set out in a Service Level Agreement. This has not as yet been approved by NHS Lothian.

2.9 Risk Management

A strategy, reporting regime and risk register highlighting the MIJB risks, mitigating controls, residual risk and accompanying actions have been developed and reported to the MIJB and the MIJB Audit and Risk and Committee. Development work continues on the risk management process and this should ensure that the risk register is fully complete, kept up to date and is reported on a regular basis to the MIJB Audit and Risk and Committee.

2.10 Fraud

Midlothian Council and NHS Lothian have a number of controls in place to limit the risk of fraud and to highlight where fraud may have occurred. Both organisations have specialist fraud officers and this resource can be called on if required. Internal auditors also undertake an assessment of fraud during each assigned review. The risks are not however regarded as material for the MIJB since it has no direct access to funds and no authority to contract with any bodies.

2.11 Annual Governance Statement

We have made recommendations for improvement which are to be incorporated into the MIJB Annual Governance Statement as follows:

- the 'Delivering Good Governance in Local Government: Framework' was updated by CIPFA/SOLACE in 2016 but this has not yet been fully embedded;
- the MIJB will have to develop its workforce plans with an emphasis of moving from specialised institution based workforce into a generalised community based workforce;
- improve financial planning timescales by moving to a 3 year plan rather than the current position of a detailed 1 year plan with indicative values for the next 2 years;
- develop performance reports; and
- gain approval from NHS Lothian of the Service Level Agreement between the Internal Audit Services of Midlothian Council, NHS Lothian and the Midlothian Integration Joint Board.

2.12 Internal Audit Opinion

I am of the opinion that the MIJB has taken steps to develop a framework of governance, risk management and control in 2016/17 and that these will be further developed in 2017/18.

Based on the work undertaken in 2016/17, I am of the opinion that overall, the MIJBs framework of governance, risk management and control is adequate. Work however needs to be continued in 2017/18 to further develop the governance arrangements through the development of performance reports, workforce plans and improved financial planning.

3 Policy Implications

There are no policy implications arising from any decisions made on this report.

4 Equalities Implications

There are no equalities implications.

5 Resource Implications

There are no resource implications arising from this report.

6 Risks

Lack of effective governance, risk management, internal control compliance and assurance in the finances of the partnership would put the success of the MIJB in achieving its objectives at risk.

7 Involving People

This involved the Internal Audit services of both Midlothian Council and NHS Lothian.

8 Background Papers

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DESIGNATION	Chief Internal Auditor
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DATE	30 May 2017

Appendices:	Appendix 1 MIJB Audit Activity during 2016/17 Appendix 2 Summary of Balanced Scorecard Measures
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MIJB Audit Activity during 2016/17

The following work was undertaken in 2016/17 in relation to the Midlothian Integration Joint Board:

No	Audit Activity	Date reported to Audit & Risk Committee	Comment
1	IJB Internal Audit Charter	June 2016	This report presented the Internal Audit Charter, specified for the Integration Joint Board, to the Audit and Risk Committee for approval.
2	Strategic plan	June 2016	This audit reviewed the processes used to develop the IJB Strategic Plan and Directions. It concluded that generally these processes were adequate and operating effectively.
3	Financial Assurance	August 2016	The objective of this audit was to provide an opinion on the Financial Assurance paper from the Chief Finance Officer of the MIJB. Recommendations were made in relation to agreement of overspends, performance reporting, the budgeting process and the use of the Social Care fund.
4	Internal Audit Recommendations Performance report	December 2016	A review of overdue recommendations was undertaken and this highlighted that Internal Audit had raised a total of 43 recommendations. 20 of these had been completed, 3 had not yet reached their due date and 20 were overdue. It was reported that the original expected completion dates were too optimistic and new implementation dates were agreed.
5	Progress report against the Internal Audit Plan	December 2016	Noted progress on the plan and provided indicative dates for completion of outstanding tasks.
6	Self- Directed Support	December 2016	This report was provided to the MIJB for information.
7	Review of controls operating over Care at Home	December 2016	This report was provided to the MIJB for information.
8	Follow up of Completed Internal Audit	March 2017	A follow up review was undertaken of a sample of previously raised recommendations made by Internal Audit.

No	Audit Activity	Date reported to Audit & Risk Committee	Comment
	Recommendations		A sample of 10 recommendations recorded as 'completed' by management on the Covalent system was reviewed to confirm the adequacy of the actions taken. 9 were found to have been implemented satisfactorily and 1 was not implemented (related to resource allocation at locality level).
9	Review of Corporate Governance and support for the Annual Governance Statement	June 2017 IJB	An audit of a sample of controls listed in the Code of Corporate Governance was reviewed for operational effectiveness. Testing identified that the key elements were in place and operating effectively. Issues raised are recorded within the Chief Internal Auditor's Annual Assurance report.
10	Chief Internal Auditor's Annual Assurance report	June 2017 IJB	A high level summary of the control environment of the MIJB by the Chief Internal Auditor. The statement is also used to inform the Annual Governance Statement.
11	Assessment against PSIAS	June 2017 IJB	This will be incorporated into the Annual Assurance report.
12	Monitoring of Performance	Fieldwork underway	Fieldwork has commenced but awaiting drafting of the Annual Performance report before this can be reviewed.
13	Directions to the NHS and Midlothian Council	Fieldwork underway	This is being undertaken by NHS Lothian Internal Audit. The Terms of reference has been agreed and the audit is planned to be concluded by 23 June 2017.
14	Help Desk / Administration	N/A	Internal Audit has provided guidance and advice to management on internal control in 2016/17 which included: a comparison of other Lothian IJB Risk Frameworks; assistance with development of a Code of Corporate Governance and Annual Governance Statement; and monitoring for submission of relevant Audit Scotland Reports to the MIJB Audit and Risk Committee.

Target / Measure	Performance
To hold at least quarterly one to one meetings with the Chair of the MIJB Audit and Risk Committee	4 meetings held. Met.
To hold at least quarterly one to one meetings with the Chief Officer	4 meetings held. Met.
To Audit all Strategic Risks on a three year cycle	Insufficient resource to look at all areas over a 3 year cycle however elements will be picked up through the governance reviews. Off target.
To follow up of recommendations. Two reports per year and specific follow up reviews.	Met.
Adoption of PSIAS	Self assessments show a good level of overall compliance. This will be subject to external scrutiny in 2017/18. Met.
Percentage of qualified staff	All internal auditors hold a relevant professional qualification. The two fraud officers hold accredited fraud qualifications. Met.
Training provided to Internal Audit Staff	Budget available / training needs identified as part of performance management framework. All staff are members of professional bodies and must undertake continual professional development. Development plans / training logs maintained. Met.
Satisfaction rates from client surveys	Post Audit Questionnaires are being reviewed and were therefore not issued during 2016/17. Off target.
Involvement of Internal Auditors in major change initiatives	Involved in set up of MIJB including governance and financial assurance. Met.
Compliance with Internal Audit strategy	Audit strategy is to review strategic risks, key processes and systems, and to have time set aside for investigations and consultancy. This approach has been followed in 2016/17. Met.