



Orkney Integration Joint Board

Internal Audit Annual Report and
Assurance Statement 2017 to 2018

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1. Introduction

1.1. The purpose of this document is to report on the 2017 to 2018 Internal Audit work and to provide the Chief Internal Auditor's annual internal audit opinion on the Orkney Integration Joint Board's (OIJB) framework of governance, risk management and control.

1.2. At its meeting on 10 March 2017 the OIJB appointed the Chief Internal Auditor of Orkney Islands Council (OIC) as the Chief Internal Auditor of the OIJB for the two financial years 2017/18 and 2018/19. The 2017/18 internal audit strategy and plan was approved by the OIJB Audit Committee on 27 September 2017. Audit work is undertaken in partnership with NHS Orkney (NHSO) Internal audit service to allow the Chief Internal Auditor to provide an annual internal audit opinion.

Governance

1.3. Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times. Acting in the public interest requires:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement.

1.4. Good governance in the public sector also requires effective arrangements for:

- Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

Risk Management

1.5. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. The OIJB approved a Risk Management Strategy on 28 June 2017, to ensure that processes were in place to identify significant risks to its corporate objectives. The Strategy was compiled from both the NHSO and OIC strategies, and aimed to build on already established best practice, so that a robust and effective framework would be in place for the management of risk.

1.6. The OIJB Risk Register was reviewed regularly throughout 2017/18 and was presented at each meeting of the Board for consideration, scrutiny and approval.

Control Processes and Environment

1.7. These are the daily routines, checks and balances that make the organisation function. The Institute of Internal Auditors (IIA) definition of control processes is: “The policies, procedures (both manual and automated) and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept.”.

1.8. The IIA state that the control environment refers to the way the board and senior management set the tone of the organisation; that it is part of the organisation’s culture, influencing how risk is viewed and the ‘control consciousness’ of its people. It is an expression of the ‘way things are done’.

Internal Audit

1.9. The Integrated Resources Advisory Group’s Finance Guidance outlines the responsibility of the Integration Joint Board to establish adequate and proportionate internal audit arrangements for the review of the adequacy of the arrangements for risk management, governance and control of the delegated resources.

1.10. The operational delivery of services within the Health Board and Local Authority on behalf of the IJB being covered by their respective internal audit arrangements.

1.11. The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014. These regulations set out the requirements for internal auditing as follows:

“7.- (1) A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.

(2) Any officer or member of a local authority must, as required by those undertaking internal auditing-

(a) make available such documents of that authority which relate to its accounting and other records for the purpose of internal auditing; and

(b) supply such information and explanation as those undertaking internal auditing consider necessary for that purpose.

(3) A local authority must from time to time assess the efficiency and effectiveness of its internal auditing, in accordance with the standards and practices referred to in paragraph (1).

(4) The findings of the assessments referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 5(2), at the meeting referred to in regulation 5(3).”

1.12. The OIJB Audit Committee approved the Internal Audit Charter for the period 2017 to 2019 on 27 September 2017 which defines the purpose, authority and responsibility for the Internal Audit service. The Charter conforms to the Public Sector Internal Audit Standards (PSIAS) which came into force on 1 April 2013, and is consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

1.13. Internal Audit has organisational independence, and this independence was maintained throughout 2017/18.

2. OIJB Internal Audit Outputs

2.1. In June 2017, Internal Audit issued an Integration Assurance (Update Report). This report reviewed the 11 recommendations which had previously been made in the Integration Assurance (Interim Report) which was issued in May 2016. The update report provided assurance that good progress had been made with addressing each of the recommendations with 10 of the 11 recommendations having been suitably addressed.

2.2. There was one recommendation which was not complete at the time of the audit. This being that in accordance with the Orkney Integration Scheme, where forecast that an overspend shall arise, the Chief Officer and Chief Finance Officer of the Board, in consultation with NHSO and OIC shall identify the cause of the forecast overspend and prepare a recovery plan setting out how they propose to address the forecast overspend and return to a breakeven position. This recommendation was agreed and was due to be addressed by 31 March 2018.

2.3. The Chief Finance Officer provided an update on this recommendation as at the end of March 2018 which confirmed that a plan had been agreed to achieve a breakeven position at the end of March 2018. There would be no carry forward of overspend and a savings target would be applied for financial year 2018/19. However, a breakeven position was achieved via additional payments being made to the OIJB by both partners.

2.4. The audit also detailed that good governance arrangements and scrutiny was observed within the OIJB and that the Chief Finance Officer had implemented good management practices towards budgetary control and management of the partnership budget.

2.5. An audit covering Financial Planning has been substantially completed by OIC Internal Audit. The final audit report will soon be issued and will be reported to the IJB Audit Committee in September.

2.6. During 2017/18 Scott-Moncrieff, who are the NHSO Internal audit providers, planned to carry out an internal audit of compliance to the Integration Scheme, as their planned and agreed contribution to the OIJB audit. This audit was initially postponed due to the departure of the Chief Officer. The audit brief has subsequently been agreed and the audit is due to be carried out in the latter half of 2018.

2.7. The OIJB Financial Regulations sets out the duty of every member of the OIJB and its representatives to observe the Financial Regulations, this includes the duty to bring to the attention of the Chief Finance Officer/Chief Internal Auditor any suspected fraud or irregularity in any matter that would contravene the regulations. There were no fraud issues or irregularities concerning the OIJB reported to the Chief Internal Auditor during 2017/18.

3. Parent Bodies Internal Audit Outputs

3.1. The OIJB has an Internal Audit Reporting Protocol in place. In accordance with this protocol, audits which have been carried out of the parent bodies (OIC and NHSO), and which are of relevance to the OIJB, have followed the normal reporting route being considered by the relevant parent body audit committee. In addition to this, these reports have also been shared, or are being shared with the OIJB or OIJB Audit Committee for noting.

NHSO Internal audit reports

3.2. Partnership Working, issued November 2017. The conclusions of this report are that Scott-Moncrieff have gained assurance that NHSO's partnership working arrangements are effective and proactive in nature. The report identified opportunities for improvement, which if addressed, would strengthen NHSO's control framework. This report was scrutinised by the NHSO Audit Committee on 5 December 2017.

3.3. Scott-Moncrieff have confirmed that controls in place are operating adequately therefore the findings of this audit do not impact on the overall opinion given within this report.

OIC Internal audit reports

3.4. Staffplan System Review, issued May 2017. This audit confirmed that Staffplan is integral to flexible and consistent provision of the Home Care Service within the Council, staff are experienced in using Staffplan and the main finding of the review was that areas of good practice were found. The report included recommended improvement actions to strengthen the system of internal control. This report was scrutinised by the OIC Monitoring and Audit Committee on 8 June 2017 and the IJB Audit Committee on 27 September 2017.

3.5. Rendall Road – Children's House, issued March 2018. This audit highlighted several areas of good practice. There were also areas where it was found that improvements could be made to the control environment. This report was scrutinised by the OIC Monitoring and Audit Committee on 29 March 2018.

3.6. The findings of these two audit reports do not impact on the overall opinion given within this report.

4. Overall Opinion

4.1. The audit work has confirmed that, for the areas subject to audit review during 2017/18 there are adequate and effective controls operating, subject to the following exclusion:

4.1.1. There is further work required to have in place appropriate recovery plans where it is forecast that there is a likely overspend on the budget.

5. Quality Assurance and Improvement Programme

5.1. Internal Audit monitors its performance in a number of ways to gauge the effectiveness of the service and to inform future service improvements.

5.2. The PSIAS introduces a specific requirement for the Internal Audit Service to have in place a quality assurance and improvement programme. The purpose of the programme is to “enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunity for improvement.”

5.3. There are two aspects to the programme, an internal assessment and an external assessment.

Internal Assessment

5.4. Internal assessment includes the ongoing monitoring of the performance of internal audit activity. This is part of the day to day work of the Chief Internal Auditor and includes supervision and file review by the Chief Internal Auditor.

5.5. Internal assessment also includes a self-assessment which is completed by the Chief Internal Auditor. The “Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note” produced by CIPFA is used for the self-assessment. This provides a very detailed examination of the service and conformance with the required standards. A self-assessment was last completed on the OIC Internal Audit Service in March 2015 and resulting improvement actions were implemented throughout 2015/16.

External Assessment

5.6. In June 2016 the Council’s Internal Audit Service was assessed for compliance to the PSIAS by the Executive Manager for Audit, Risk and Improvement from Shetland Islands Council.

5.7. The results of the assessment were reported to the OIC’s Monitoring and Audit Committee on 29 September 2016. The overall conclusion of the assessment was that the Internal Audit Service substantially conforms with the PSIAS requirements. There were five areas identified where improvements could be made, these areas were addressed for the Chief Internal Auditor to be able to report a position of full compliance with the PSIAS.

5.8. The external auditors of the OIJB, Audit Scotland, assess the Internal Audit Service annually to determine the extent of reliance that can be placed on the work of the Service. The external auditors reported the following opinion in their 2016/17 Annual audit report to Members of the OIJB and the Controller of Audit:

“We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.”

5.9. In my opinion the OIJB Internal Audit Service substantially complied with the PSIAS during 2017/18.

5.10. The Chief Internal Auditor is the OIC’s representative on the Scottish Local Authorities Chief Internal Auditors Group. The group held three meetings to discuss current audit issues and to share best practice during 2017/18. The Chief Internal Auditor attended two of these meetings.

6. Acknowledgement

6.1. The assistance provided by officers contacted during the course of the audit is gratefully acknowledged.

Olwen Sinclair, BA FCCA.

Chief Internal Auditor.

21 August 2018.