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Agenda Item: 6.

## **Integration Joint Board – Audit Committee**

Date of Meeting: 26 June 2019.

Subject: Internal Audit Annual Report and Assurance Statement 2018 to 2019.

### **1. Summary**

1.1. Internal audit has a duty to provide an annual assurance statement on the overall adequacy and effectiveness of the framework of governance, risk management and control. As Chief Internal Auditor, this annual report provides my opinion on the Orkney Integration Joint Board's (OIJB) internal control framework for financial year 2018 to 2019.

### **2. Purpose**

2.1. This report has been prepared to present the Internal Audit Annual Report and Assurance Statement for 2018 to 2019.

### **3. Recommendations**

The Integration Joint Board – Audit Committee is invited to:

3.1. Note the Internal Audit Annual Report and Assurance Statement for 2018 to 2019, attached as Appendix 1 to this report.

### **4. Background**

4.1. The Integrated Resources Advisory Group (IRAG) guidance outlines the responsibility of the Integration Joint Board (IJB) to establish adequate and proportionate internal audit arrangements for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources.

4.2. The Chief Internal Auditor is required to provide an annual internal audit report including an audit opinion on risk management, governance and control.

4.3. The IRAG guidance recommends that the annual internal audit report is shared with the partner Health Board and Local Authority through the reporting arrangements in those bodies for internal audit the circumstances of looked after children/young persons are reviewed regularly.

## 5. Contribution to quality

Please indicate which of the Council Plan 2018 to 2023 and 2020 vision/quality ambitions are supported in this report adding Yes or No to the relevant area(s):

<b>Promoting survival:</b> To support our communities.	No.
<b>Promoting sustainability:</b> To make sure economic, environmental and social factors are balanced.	No.
<b>Promoting equality:</b> To encourage services to provide equal opportunities for everyone.	No.
<b>Working together:</b> To overcome issues more effectively through partnership working.	Yes.
<b>Working with communities:</b> To involve community councils, community groups, voluntary groups and individuals in the process.	No.
<b>Working to provide better services:</b> To improve the planning and delivery of services.	Yes.
<b>Safe:</b> Avoiding injuries to patients from healthcare that is intended to help them.	No.
<b>Effective:</b> Providing services based on scientific knowledge.	No.
<b>Efficient:</b> Avoiding waste, including waste of equipment, supplies, ideas, and energy.	Yes.

## 6. Resource implications and identified source of funding

6.1. The provision of the internal audit service for 2018 to 2019 has been contained within the contingency allocation of audit time by both OIC Internal Audit and the NHSO internal audit service providers, Scott-Moncrieff. This has therefore not resulted in any additional cost to any party.

## 7. Risk and Equality assessment

7.1. There are no risk or equality implications associated with this report. The provision of an annual internal audit opinion strengthens the governance arrangements of the OIJB.

## 8. Direction Required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.
Both NHS Orkney and Orkney Islands Council.	No.

## 9. Escalation Required

Please indicate if this report requires escalated to:

NHS Orkney.	No.
Orkney Islands Council.	No.
Both NHS Orkney and Orkney Islands Council.	No.

## 10. Author

10.1. Andrew Paterson (Chief Internal Auditor), Integration Joint Board.

## 11. Contact details

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## 12. Supporting documents

12.1. Appendix 1: Internal Audit Annual Report and Assurance Statement 2018 to 2019.



## **Orkney Integration Joint Board**

Internal Audit Annual Report and  
Assurance Statement 2018 to 2019

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# 1. Introduction

1.1. The purpose of this document is to report on the 2018 to 2019 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 2018/19 internal audit strategy and plan was approved by the OIJB Audit Committee on 13 March 2018. 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 refreshed Risk Management Strategy on 3 October 2018, to ensure that processes are 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 2018/19 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 established the statutory duty to have internal audit service in place.

1.12. On 27 September 2017, the OIJB Audit Committee approved the Internal Audit Charter for the period 2017 to 2019, 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 in March 2017, 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 2018/19.

## **2. OIJB Internal Audit Outputs**

2.1. An audit of Financial Planning was completed by OIC Internal Audit. The final audit report was reported to the IJB Audit Committee on 26 September 2018.

2.2. The main findings of the audit were as follows:

- There was no medium-term financial plan.
- There was no approved budget in place for 2018/19.
- The recovery plan did not detail how savings were to be achieved.

2.3. An internal audit of compliance to the Integration Scheme originally planned for 2017/18 was performed by Scott Moncrieff. This was presented to the IJB Audit Committee on 13 March 2019.

2.4. The audit found that the IJB had strong governance processes to provide effective oversight of IJB activities and that the Integration Scheme had been designed in a manner that enabled any changes required to the Scheme or its operational approach to be implemented in a timely manner. There were no areas for improvement identified during the course of this review.

2.5. 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 2018/19.

### **3. Partner 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 partner bodies (OIC and NHSO), and which are of relevance to the OIJB, have followed the normal reporting route being considered by the relevant partner 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 February 2019. Scott-Moncrieff gained assurance that NHSO and IJB procedures reflect good practice in a number of areas. However, the report identified the following two areas for improvement:

- There was a delay of a minimum of three months in the publication of the 2019-2022 Strategic Commissioning Plan.
- As a result of the above there would be a similar delay in setting Key Delivery Targets.

#### **OIC Internal Audit reports**

3.3. Out of Orkney Placements, issued August 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 27 September 2018 and the IJB Audit Committee on 13 March 2019.

3.4. PARIS System Support, issued May 2019. This audit identified areas of good practice and several areas for improvement. This report was scrutinised by the OIC Monitoring and Audit Committee on 6 June 2019 and is due to be considered by the IJB Audit Committee on 26 June 2019.



3.5. 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 2018/19, there are adequate and effective controls operating, subject to the following exclusions which were identified as high priority improvement actions:

4.1.1. Financial Planning Audit:

- There was no medium-term financial plan.
- There was no approved budget in place for 2018/19.
- The recovery plan did not detail how savings were to be achieved.

4.2. These actions were specific to strategic planning and do not impact on the overall governance arrangements of the IJB.

4.3. Furthermore, the Chief Internal Auditor confirmed that there were no fraud issues to report to the external auditors for the financial year.

## **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 2017/18 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 2018/19.

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 2018/19. The Chief Internal Auditor attended two of these meetings.

Andrew Paterson MSc CMIIA.

Chief Internal Auditor.

07 June 2019.