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**Report To:** Inverclyde Integration Joint Board Audit Committee      **Date:** 11 September 2018

**Report By:** Louise Long  
Corporate Director (Chief Officer)  
Inverclyde Health & Social Care Partnership      **Report No:** IJBA/06/2018/AP

**Contact Officer:** Andi Priestman      **Contact No:** 01475 712251

**Subject:** INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2017/2018

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to present the Internal Audit Annual Report and Assurance Statement for 2017/2018 which forms part of the Integration Joint Board's Annual Governance Statement.

## 2.0 SUMMARY

- 2.1 The Internal Audit Annual Report 2017/2018 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. The overall audit opinion is **Satisfactory**. Appendix 1
- 2.2 A follow up process has been established during 2017/2018 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 reviews and considers the Internal Audit Annual Report and Assurance Statement.

**Louise Long**  
Chief Officer  
Inverclyde Health & Social Care Partnership

## 4.0 BACKGROUND

- 4.1 Public Sector Internal Audit Standards (PSIAS) 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 2017/2018 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 during 2017/2018 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 2017-2018 which has 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 January and March 2018.



**Internal Audit Annual Report and Assurance Statement 2017/2018**

**14 June 2018**

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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 2017/2018 is gratefully acknowledged.

## **SECTION 2 – ASSESSMENT OF RISK MANAGEMENT, CONTROLS AND GOVERNANCE**

### **Scope**

- 2.1 The work undertaken by Internal Audit in 2017/2018 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 2017/2018, 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. The overall opinion is **Satisfactory**.

### **Other matters**

- 2.3 Summaries of the issues arising in relation to each system or activity covered by Internal Audit work in 2017/2018 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 2017/2018 internal audit plan**

- 3.2 The Annual Internal Audit Operational Plan 2017/2018 was discussed and agreed with the Audit Committee on 12 September 2017.
- 3.3 Progress against planned audit work for the year to 31 March 2018 can be summarised as follows:-

<b>Audit Area</b>	<b>Indicative Scope</b>	<b>Status</b>
Strategic Planning and Performance Management Arrangements	The Inverclyde IJB Strategic Plan 2016-2019 was approved in March 2016.  Internal Audit will review the adequacy and effectiveness of arrangements in place to review, monitor and update the Inverclyde IJB Strategic Plan.	Complete
Workforce Planning	The Inverclyde HSCP People Plan 2017-2020 was approved in June 2017.  Internal Audit will review the adequacy and effectiveness of arrangements in place to review, monitor and update the Inverclyde HSCP People Plan.	Complete
Action Plan Follow Up	To monitor the progress of implementation of agreed internal audit action plans by management.	Ongoing
Audit Planning and Management	Review and update of the audit universe and attendance at IJB Audit Committee.	Complete
Internal Audit Annual Report	Annual report on 2017-2018 audit activity.	Complete

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

<b>Report</b>	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Overall Grading</b>
Strategic Planning and Performance Management Arrangements	0	2	2	Satisfactory
Workforce Planning	0	1	1	Satisfactory
<b>Total</b>	<b>0</b>	<b>3</b>	<b>3</b>	

**Progress on Implementation of Action Plans**

- 3.5 Action plans were agreed in relation to the reports generated for the 2017/2018 annual audit plan. The following table sets out the number of actions agreed for each report issued and the status of completion at 31 May 2018 as follows:

<b>Report</b>	<b>No of Actions Agreed</b>	<b>No of Actions Complete at 31/5/18</b>	<b>No of Actions Revised at 31/5/18</b>	<b>No of Actions Not Due at 31/5/18</b>
Strategic Planning and Performance Management Arrangements	5	0	0	5
Workforce Planning	3	0	0	3
<b>Total</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>8</b>

- 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 2017/2018, 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
SWIFT Financials – Project Assurance Review	Satisfactory	0	0	6
Quick Quotes	Satisfactory	0	4	6
HSCP Commissioning	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 investigations have been undertaken as follows:-

Year/Ref	Enquiry	Status
17/18 17-11	Misuse of Blue Badge	Closed – No misuse established.
17/18 17-13	Misuse of Blue Badge	Closed – misuse established. BB seized and misuse letter issued.
17/18 17-14	Misuse of Blue Badge	Closed – misuse established. Expired BB seized and misuse letter issued.
17/18 17-20	Misuse of Blue Badge	Closed – misuse established. BB seized and misuse letter issued.
17/18 17-22	Misuse of Blue Badge	Closed – misuse established. BB seized and misuse letter issued.
17/18 17-24	Discrepancy with Corporate Appointee Account	Closed – no fraud detected but control improvements identified and recommendations agreed.
17/18 17-58	Misuse of Blue Badge	Misuse established – reported through BBIS system.
17/18 17-72	Misuse of Corporate Purchase Card	Closed – no fraud detected but control improvements identified and recommendations agreed.
17/18 17/87	Expired Blue Badge	Closed – misuse established. BB seized and misuse letter issued.
17/18 17-93	Misuse of Expired Blue Badge	Closed - misuse established and badge seized. Letter issued to badge holder.
17/18 17-94	Misuse of Expired Blue Badge	Closed – misuse established and badge seized. Letter issued to badge holder.
17/18 17-102	Misuse of Expired Blue Badge	Closed – misuse established and database updated.
17/18 17-107	Misuse of Expired Blue Badge	Closed – misuse established and badge seized.

## INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2017/2018

- 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 2017/2018, 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. The overall opinion is **Generally Satisfactory with some improvements needed.***

There were no significant issues that were highlighted for inclusion in the Council's Annual Governance Statement.

- 3.11 During 2017/2018, the following Internal Audit Reports have been issued to NHSGGC which are relevant to the IJB:-

Audit	Overall Report Grade	No/Category of Issue		
		High	Medium	Low
Property transaction monitoring	N/A	-	-	-
Waiting times management	High Risk	1	3	1
Mental Health: Crisis Management	High Risk	1	2	1
Delayed discharge	Medium Risk	-	4	-
Premium Rate Agency Use	Medium Risk	-	2	1
Key financial controls: Accounts Payable	Low Risk	-	-	-
Key financial controls: Fixed Assets	Low Risk	-	-	3
Key Financial Controls: Payroll	Low Risk	-	-	-
Clinical and Care Governance	Low Risk	-	-	2
Information Governance – Information Asset Register	Low Risk	-	2	1
Public Health Screening Programme	Low Risk	-	-	2
Gifts and Hospitality Compliance	Medium Risk	-	3	1
Programme Management – Moving Forward Together	Low Risk	-	-	-
Health and Safety Compliance	Medium Risk	-	3	1
Corporate Risk Management	Low Risk	-	1	2
Achieving Financial Balance	High Risk	1	-	-
Financial Planning 2018/2019	Medium Risk	-	2	1
	<b>Total Findings</b>	<b>3</b>	<b>22</b>	<b>16</b>

- 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.

**3. Progress on the 2017/2018 internal audit plan (Continued)**

Three isolated high risk recommendations were identified through internal audit's work which were highlighted for consideration for inclusion in the NHSGGC Annual Governance Statement but none of the individual assignment reports had an overall classification of critical 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 considers the work of Internal Audit throughout the year to inform their audit process.

**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 2017/2018 was discussed and agreed at the Audit Committee on 12 September 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 2017/2018 was discussed and agreed at the Audit Committee on 12 September 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 2018 (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.

<b>Satisfactory</b>	<p>Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> <li>• A limited number of Amber rated issues may have been identified, but generally only green issues have been found in individual audit assignments.</li> <li>• None of the individual assignment reports have an overall opinion of <b><i>Requires Improvement or Unsatisfactory</i></b>.</li> </ul>
<b>Generally Satisfactory with some improvement needed</b>	<p>A few specific control weaknesses were noted: generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> <li>• A number of Amber rated issues identified in individual audit assignments that collectively do not significantly impact the system of internal control.</li> <li>• Red rated issues that are isolated to specific systems or processes.</li> <li>• None of the individual assignment reports have an overall opinion of <b><i>Unsatisfactory</i></b>.</li> </ul>
<b>Major improvement needed</b>	<p>Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> <li>• A high number of Amber rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread.</li> <li>• A number of Red rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread.</li> <li>• A small number of individual assignment reports have an overall opinion of <b><i>Requires Improvement or Unsatisfactory</i></b>.</li> </ul>
<b>Unsatisfactory</b>	<p>Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> <li>• Amber and Red rated issues identified in individual assignments that collectively are widespread to the system of internal control.</li> <li>• A high number of individual assignment reports have an overall opinion of <b><i>Requires Improvement or Unsatisfactory</i></b>.</li> </ul>