

EAST RENFREWSHIRE INTEGRATION JOINT BOARD**PERFORMANCE AND AUDIT COMMITTEE****26 September 2018****Report by Chief Auditor****INTERNAL AUDIT ANNUAL REPORT 2017/18****PURPOSE OF REPORT**

1. To submit the Chief Auditor's Annual Report for 2017/18 which contains an independent opinion on the adequacy and effectiveness of the governance, risk management and internal control systems operating within the integration joint board (IJB).

BACKGROUND

2. Internal Audit is an autonomous unit within the Chief Executive's Office of East Renfrewshire Council. Independence is achieved through the organisational status of internal audit and the objectivity of internal auditors. For the purposes of providing an annual opinion, reliance will be placed on the work of the NHS Greater Glasgow and Clyde (NHSGGC) internal auditors, East Renfrewshire Council internal auditors and any work carried out by other external assessors, for example Audit Scotland and Care Inspectorate.

3. In order to ensure proper coverage and avoid duplication of effort, the internal auditors of the NHSGGC and all the local authorities operating within this Health Board area meet periodically.

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4. The attached annual report (Appendix 1) contains the annual internal audit statement of assurance and concludes that the IJB had adequate and effective internal controls in place proportionate to its responsibilities in the year ended 31 March 2018.

RECOMMENDATION

5. The Committee is asked to:

- note the contents of internal audit's annual report 2017/18
- note the annual assurance statement and the conclusion that the IJB had adequate and effective internal controls in place proportionate to its responsibilities in 2017/18.

Further information is available from Michelle Blair, Chief Auditor, telephone 0141 577 3067.

M Blair, Chief Auditor
31 August 2018

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INTRODUCTION

- 1 The Scottish Government established the Integrated Resources Advisory Group (IRAG) to consider the financial implications of integrating health and social care, and to develop professional guidance.
- 2 The IRAG guidance outlines the responsibility of the integration joint board (IJB) to establish good governance arrangements, including proportionate internal audit arrangements for the review of the adequacy of the arrangements for governance, risk management and control of resources delegated to the IJB.
- 3 East Renfrewshire Council (ERC) and NHS Greater Glasgow and Clyde (NHSGGC) agreed that East Renfrewshire Council's internal audit service would undertake the internal audit role for the IJB and the Chief Auditor of East Renfrewshire Council was formally appointed to that role by the Integration Joint Board on 7 October 2015.
- 4 The guidance also states that the IJB has responsibility for reviewing the effectiveness of the governance arrangements including the system of internal control.
- 5 To inform this review and the preparation of the governance statement, as stated in the CIPFA framework on Delivering Good Governance in Local Government, internal audit is required to provide an annual assurance statement on the overall adequacy and effectiveness of the framework for governance, risk management and control. This annual report contains the opinion on the IJB's internal control framework for the financial year 2017/18.

INTERNAL CONTROL FRAMEWORK

- 6 In order to ensure the proper conduct of its business, the IJB has a responsibility to develop and implement systems of internal control. The presence of an effective internal audit function contributes towards, but is not a substitute for, effective controls and it remains primarily the responsibility of line management to ensure that internal controls are in place and are operating effectively. A sound control system will help safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to IJB policy and procedures. Such systems of internal control can provide only reasonable and not absolute assurance against loss.
- 7 An excellent working relationship exists between internal audit and Audit Scotland, the IJB's appointed external auditors. Information on audit planning and the progress of audit work is regularly exchanged on an informal basis which helps avoid duplication of effort and maximises audit resources. Audit Scotland review the work of internal audit annually to consider whether reliance can be placed on internal audit's work and it is pleasing to be able to report that Audit Scotland continue to be able to place reliance on internal audit's work as the standard of work meets their requirements.

ACHIEVEMENT OF ANNUAL AUDIT PLAN

- 8 The 2017/18 plan provided 20 days and was approved by the Performance and Audit Committee on 27 September 2017. The audit work to be covered was a review of the governance arrangements and consultation on the compilation of code of governance and a follow up of progress against previous internal audit recommendations.
- 9 The report on governance was issued and all recommendations were accepted by management. This report was considered by the Performance and Audit Committee in June 2018. The scope of the audit covered the following areas:

- The requirements relating to governance as specified in the integration scheme are being met.
- A code of governance covering IJB is established by Audit drawing together all relevant elements.
- Supporting documentation demonstrating compliance with the code of governance is up to date and has been published in accordance with the publication scheme.
- Requirements relating to governance stipulated in documents underpinning the code are being complied with.
- Annual review of governance arrangements is in place.
- Information sharing arrangements with NHS Greater Glasgow & Clyde have been established.

10. The report concluded that the IJB is fully compliant in most areas as detailed in the Integration Scheme but there are two where there is partial compliance in relation to workforce and development planning and clinical and care governance. It was also recommended that the IJB should develop a sharing protocol with the auditors of the NHS Greater Glasgow and Clyde Health Board to allow all audit reports that affect the IJB to be available to members of the Performance and Audit Committee.

ANNUAL INTERNAL AUDIT OPINION

11. The ERC annual report and assurance statement for 2017/18 highlighted significant failures in controls within four areas, however only the two in relation to significant control failures within the Council's creditors section are specifically relevant to the IJB.

12. As reported in 2017/18, creditors management had agreed to implement software to help identify duplicate or erroneous payments prior to being paid but this was not done. Subsequent audit testing identified that numerous duplicate or erroneous payments had been made across all council departments, including HSCP. The amounts relating to HSCP were not material.

13. Additionally, the Council had been subject to a fraudulent request to change a supplier's bank details. The bank details were changed without the usual checks being carried out. Two subsequent valid invoices were then paid by BACS using the fraudulent bank details. Fortunately, the council did not lose any funds as the bank identified an anomaly with the payment and refunded the Council the full amount paid of £2.3 million.

14. The Council's creditors management have taken steps to address the weaknesses identified in relation to the duplicate payments and amendment of bank details.

15. The internal auditors for NHSGCC have provided details of their annual report and assurance statement for 2017/18. The Head of Internal Audit's opinion was that governance, risk management and control in business critical areas is generally satisfactory.

16. The Internal Audit Annual Statement of Assurance is attached.

CONCLUSION

17. Audit is satisfied that the required financial assurance and governance arrangements were in place to support the delegation of functions to the integration joint board for the year ended 31 March 2018. The IJB has produced a Governance Statement which concurs with this conclusion.

INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE FOR 2017/18

As Chief Auditor of East Renfrewshire Integration Joint Board, I am pleased to present my annual statement on the adequacy and effectiveness of the governance, risk management and internal control systems of the East Renfrewshire Integration Joint Board for the year ended 31 March 2018.

Respective responsibilities of management and Internal Audit in relation to Governance, Risk Management and Internal controls

It is the responsibility of the Board to establish appropriate and sound systems of governance, risk management and internal control and to monitor the continuing effectiveness of these systems. It is the responsibility of the Chief Auditor to provide an annual overall assessment of the robustness of governance, risk management and internal control.

Framework of Governance, Risk Management and Internal Controls

The Integration Joint Board uses the systems of East Renfrewshire Council (ERC) and NHS Greater Glasgow and Clyde (NHSGGC) to manage its financial records.

The main objectives of the internal control systems are:

- To ensure adherence to management policies and directives in order to achieve the Integration Joint Board's objectives;
- To safeguard assets;
- To ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, ERC and NHSGGC continually seek to improve the effectiveness of their systems of internal control.

The work of Internal Audit

Internal Audit is an independent appraisal function established 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 the organisation's resources.

The operational delivery of services within ERC and NHSGGC on behalf of the IJB will be covered by their respective internal audit arrangements.

There is a requirement that the IJB internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013. The East Renfrewshire Council Internal Audit service operates in accordance with the PSIAS and undertakes an annual programme of work which is approved and monitored by the Council's Audit and Scrutiny Committee. The internal audit service for NHSGGC is provided by PriceWaterhouseCoopers (PWC) whose audit methodology also conforms to PSIAS.

ERC's internal audit section provided an annual report and assurance statement for 2017/18 which was submitted to the Council's Audit and Scrutiny Committee on 16 August 2018 for approval. The audit opinion concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's risk, governance and internal control framework in the year to 31 March 2018 except for four areas, two of which relate to creditors. The control weaknesses highlighted in relation to creditors were not solely applicable to HSCP but across all Council departments and management action has now been taken to address these.

NHSGGC's internal auditor provided an annual report to the NHS dated May 2018 which contained the Head of Internal Audit's Opinion which concluded that the adequacy and effectiveness of governance, risk management and control in relation to business critical areas is generally satisfactory with some improvements required. Three audit findings identified during 2017/18 were rated as high risk. These were in respect of waiting times management, achieving financial balance and mental health: crisis management.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by ERC Internal Audit staff during the year to 31 March 2018
- The audit work undertaken by PWC who are the appointed auditors of NHSGGC during the year to 31 March 2018.
- Chief Auditor's knowledge of the IJB's activities for the year ended 31 March 2018.

Opinion

It is my opinion, based on the information available and assurances provided, that reasonable assurance can be placed on the control environment which operated in the East Renfrewshire Integration Joint Board in the year to 31 March 2018.

Michelle Blair FCA
Chief Auditor

31 August 2018