

EAST RENFREWSHIRE INTEGRATION JOINT BOARD**PERFORMANCE AND AUDIT COMMITTEE****28 September 2016****Report by Chief Auditor****INTERNAL AUDIT ANNUAL REPORT 2015/16****PURPOSE OF REPORT**

1. To submit the Chief Auditor's Annual Report for 2015/16 which contains an independent opinion on the adequacy and effectiveness of the internal controls operating within the integration joint board (IJB) together with a brief detail of planned work for 2016/17.

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.

ANNUAL REPORT 2015/16

4. The attached annual report (Appendix 1) contains the internal audit annual statement on the adequacy of internal control and concludes that the IJB had adequate and effective internal controls in place proportionate to its responsibilities in the year ended 31 March 2016 except for HSCP payments to providers.

5. Attention is drawn to the documents which are mentioned in the integration scheme which are not yet fully in place, namely: performance directory and organisational development strategy.

PROPOSED AUDIT ACTIVITIES 2016/17

6. In total, 15 audit days have been allocated against IJB within the ERC Annual Audit Plan as approved by the Council Audit and Scrutiny Committee on 21 April 2016. It is proposed that these days are spent as follows:

	Description	Planned days
Performance Reporting	Assess the establishment of performance management arrangements and reporting for indicators agreed by the IJB	10
Planning, reporting and administration	Audit Committee attendance, preparation of reports and miscellaneous time spent liaising with partner organisations and peers.	5

Total		15
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RECOMMENDATION

7. The Committee is asked to:

- note the contents of internal audit's annual report 2015/16
- note the annual statement on the adequacy of internal control and the conclusion that the IJB had adequate and effective internal controls in place proportionate to its responsibilities in 2015/16 except for HSCP payments to providers.
- approve the planned work for 2016/17.

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

M Blair, Chief Auditor
16 September 2016

INTERNAL AUDIT ANNUAL REPORT 2015/16

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 and NHS Greater Glasgow and Clyde 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. As the Chief Auditor of the IJB, this annual report contains the opinion on the IJB's internal control framework for the financial year 2015/16.

INTERNAL CONTROL

6. The order establishing the Integration Scheme in June 2015 was presented to the shadow IJB on 19 August 2015 and details how the Council and NHSGGC will work jointly to integrate and plan for services in accordance with the Public Bodies (Joint Working)(Scotland) Act 2014.
7. The IJB took on responsibility for the functions delegated to it from 7 October 2015. Whilst the content of the integration scheme provides suitable direction, additional operational guidance needs to be developed so that the IJB can provide adequate assurances that systems, procedures and resources are in place to monitor, manage and deliver the services delegated to it. Consequently, since October 2015, the IJB has approved a number of financial assurance and governance arrangements including:
 - Appointment of the Chief Officer and Chief Financial Officer
 - Financial regulations
 - Standing orders
 - Strategic plan
 - Internal audit arrangements
 - Performance and audit committee
 - Reserves policy
 - Information sharing protocol
8. The Integration Scheme was reviewed against the Model Integration Scheme and Audit concludes that generally all required areas were adequately covered. It is noted that some documents referred to in the integration scheme however are not yet fully in place, including a performance directory and organisational development strategy, both of which are still in development. Whilst a full list of all performance measures was submitted to the Performance and

Audit Committee on 29 June 2016, core indicators need to be established in a directory detailing targets, measures, responsibility and arrangements for collection and be presented to the IJB. In respect of complaints, joint reports are to be submitted six monthly to the IJB for consideration however to date only one complaints report has been submitted and it only covers complaints up to October 2015.

9. The IJB may wish to consider asking management when these remaining documents mentioned in the integration scheme will be put in place or presented for consideration.

INTERNAL CONTROL FRAMEWORK

10. 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.

11. 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.

ANNUAL INTERNAL AUDIT OPINION

12. As reported in the ERC 2015/16 annual report, significant failures in controls within the Council HSCP financial processes in relation to payments made to providers were identified just prior to the start of 2015/16. This resulted in material overpayments being made over a number of years though these have now been recovered or invoiced.

13. An audit report relating to this was issued during 2015/16 and was considered by the Council's Audit and Scrutiny Committee in January 2016.

14. Progress against implementing the recommendations contained within this Council report has been presented to the IJB Performance and Audit Committee at the last three meetings and is due to be presented to the Council Audit and Scrutiny Committee in September 2016.

15. HSCP management have stated that most of the audit recommendations have now been implemented however this has yet to be verified by internal audit and follow up work on this is currently under way.

16. The Internal Audit Annual Statement on the Adequacy of Internal Control 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 2016 except for payments to providers made by ERC Health and Social Care Partnership in respect of learning disability. The IJB has produced a draft Governance Statement which concurs with this conclusion and also makes reference to the control weakness relating to payments to providers.

INTERNAL AUDIT ANNUAL STATEMENT ON THE ADEQUACY OF INTERNAL CONTROL

As Chief Auditor of East Renfrewshire Integration Joint Board, I am pleased to present my annual statement on the adequacy and effectiveness of the internal control systems of the East Renfrewshire Integration Joint Board for the year ended 31 March 2016.

Respective responsibilities of management and Internal Audit in relation to internal control

It is the responsibility of the Board to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Auditor to provide an annual overall assessment of the robustness of the internal control systems.

Sound 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 organisation'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 organisations 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 completed all planned work for the Council in 2015/16 and an annual report and assurance statement was submitted and approved by the Council's Audit and Scrutiny Committee on 18 August 2016. The audit opinion concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2016 except for payments to providers made by HSCP in respect of learning disability and collection of income for community alarms.

NHSGGC's internal auditor provided an annual report to the NHS dated 21 June 2016 which contained the Head of Internal Audit Opinion which concluded that the governance, risk management and control in relation to business critical areas is generally satisfactory.

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 2016
- The audit work undertaken by PWC who are the appointed auditors of NHSGGC during the year to 31 March 2016.
- Chief Auditor’s knowledge of the IJB’s activities for the year ended 31 March 2016.

Opinion

It is my opinion, based on the information available, that reasonable assurance can be provided on the adequacy of the governance and internal controls that were in place for the East Renfrewshire Integration Joint Board in the year to 31 March 2016 except for payments to providers made by ERC Health and Social Care Partnership in respect of learning disability. Proper accounting records were not kept and reconciliations were not carried out timeously resulting in material overpayments being made to providers over a number of years. These overpaid amounts have now been recovered or invoiced.

Michelle Blair ACA
Chief Auditor

16 September 2016