

# Report

Report to:	<b>Risk and Audit Scrutiny Forum</b>
Date of Meeting:	<b>1 November 2017</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Internal Audit Activity as at 13 October 2017</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Update the Risk and Audit Scrutiny Forum on progress by, and performance of the Internal Audit service in the period to 13 October 2017

## 2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that progress and performance is noted

## 3. Background

3.1. Findings from internal audit assignments are reported to the Forum throughout the year. The last progress report to the Forum was in September 2017. This reported on work completed in the period 27 May to 31 August 2017. This report covers all work completed in the period 1 September to 13 October 2017. Performance information is also included.

## 4. Performance

4.1. As at 13 October 2017, 80% of the 2017/2018 Audit Plan has been started. The other key performance indicators reflecting quality, on time and within budget for the period to 30 September 2017 are summarised in Appendix One together with explanations. 83% of draft reports have been delivered on time and 91% within budget against targets of 80% respectively. Quality continues to be monitored through internal quality control procedures.

4.2. Client contributions to the delivery of the audit plan take the form of responding to draft reports, agreeing to closing meetings and signing reports quickly once agreed. 67% of audit assignments were concluded to a signed action plan within four weeks of the issue of a draft report against a target set of 80%.

## 5. Findings

5.1. Appendix Two lists all assignments completed in the period 1 September to 13 October 2017. This included an annual report that was presented to the Board of South Lanarkshire Health and Social Care Partnership on 12 September 2017 in relation to a programme of audit work that was concluded in 2016/2017. A summary of the content of this report is noted in paragraphs 5.2 to 5.24 below.

- 5.2. The Public Bodies (Joint Working) (Scotland) Act 2014 received royal assent on 1 April 2014 and provided a framework to support improvement in the quality and consistency of Health and Social Care Services through the integration of health and local authority social services. Within South Lanarkshire, the Council and NHS Board agreed to implement a 'body corporate' model for health and social care integration through the establishment of an Integration Joint Board (IJB). This approach was approved by Executive Committee on 25 September 2013 and the South Lanarkshire Health and Social Care Partnership became fully operational on 1 April 2016.
- 5.3. A Scottish Government Advisory Group - the Integrated Resource Advisory Group (IRAG) – produced professional guidance on integration and the responsibilities of the IJBs. This guidance included the responsibility of the IJB to establish adequate and proportionate internal audit arrangements for review of the adequacy of arrangements for risk management, governance and control of the delegated resources
- 5.4. The joint annual internal audit report for 2016/2017 covered four separate areas, namely, the due diligence process (the financial allocation) together with the IJB's governance arrangements, financial management systems and performance framework.
- 5.5. In respect of the due diligence process, fundamental to the establishment of the IJB, was the identification of the financial allocation required to maintain the agreed "in-scope" services and functions outlined within the IJB Integration Scheme. The first budgets were formally delegated to the IJB for the 2016/2017 financial year. A due diligence process was undertaken by South Lanarkshire Council (SLC) and NHS Lanarkshire (NHSL) to provide assurance as to the adequacy of this first delegated financial allocation to the IJB in 2016/2017 and a report was presented to the IJB on 29 March 2016 documenting the process.
- 5.6. The objective of the audit in 2016/2017 was to provide assurance that the due diligence process undertaken was in line with the corresponding IRAG guidance. The audit focused on the process undertaken and specifically excluded any verification of the actual delegated budget.
- 5.7. Internal Audit work obtained assurances that the due diligence process undertaken was in line with the stages recommended within the IRAG guidance with no obvious gaps and that the risks attached to the delegated budget were understood by both parties.
- 5.8. Following the due diligence process, both parties accepted the continuing risk that the funds made available to the IJB, in both the short and longer term, may not be sufficient to fully fund all anticipated needs either as a result of the Scottish Government financial settlements, increases in demographic growth and/or changing priorities.
- 5.9. In terms of the risk of overspend, the risk to the other partner was assessed as low since a key assumption accepted by the partners was that overspends would be funded by the partner delegating the corresponding budget. However, although the risk was assessed as low, it was recognised that the impact on the original partner could be high depending on the level of any potential overspend incurred (see also 5.19 and 5.20).

- 5.10. The audit acknowledged that, as integration becomes embedded going forward, the ability to continue to clearly attribute service provision and associated budget to one party may become more difficult and, on that basis, it would be prudent for the IJB to consider how cross-party overspends would be managed.
- 5.11. In time, further financial risks may develop should the integrated body choose to review priorities and their associated resources and the IJB was advised that this risk should continue to be monitored.
- 5.12. The IJB is a legal entity in its own right, created by Parliamentary Order, following Ministerial approval of an Integration Scheme. It operates under public sector good practice governance arrangements which are proportionate to its transactions and responsibilities. The audit in 2016/2017, to assess the governance arrangements in place for the IJB against the IRAG guidance, was supported by review of a self-assessment governance checklist facilitated for the IJB by its Chief Financial Officer (CFO).
- 5.13. The self-assessment exercise and audit assignment concluded that there are strategic arrangements in place in terms of both the financial and operational governance arrangements outlined within the IRAG guidance but that there were some areas for further development. The IJB were advised that actions arising from the self-assessment exercise undertaken by the CFO should be formalised and reported to the IJB's Performance and Audit Sub-Committee to allow progress to be monitored.
- 5.14. The IJB's Governance Statement detailed nine separate control and governance improvement areas to be delivered during 2017/2018. This Statement reflected the audit opinion based on the concluded programme of work for 2016/2017 and had previously been discussed with the CFO.
- 5.15. In respect of financial management arrangements, the Strategic Commissioning Plan, approved in March 2016, included an initial three year medium term financial plan for the resources within the scope of the Strategic Plan. The Commissioning Plan set out the commissioning intentions to be implemented across the three financial years 2016/2017 to 2018/2019. The medium term financial plan is currently under review.
- 5.16. The audit concluded that financial management arrangements are in place, however, that these should continue to be developed to ensure that they are both effective and inform decision-making in future years.
- 5.17. Both SLC and NHSL face challenges balancing their respective budgets due to budget pressures exceeding the provisional level of funding available in 2017/2018 within the Scottish Government financial settlement in that year. Notwithstanding this, the financial contributions of both partners have helped to address a number of significant cost pressures across health and social care services in the year.
- 5.18. Further development of financial arrangements will be required to take cognisance of the requirements of the Annual Financial Statement set out within Scottish Government guidance. This is likely to require further changes within financial information systems to allow the IJB to comply with the guidance but would, in turn, facilitate improvements in financial monitoring arrangements. Work is being progressed to refine the financial reporting format and develop an integrated report.

- 5.19. The arrangements to manage significant budget variances are specified within the IJB's Integration Scheme and Financial Regulations. The assumption is that overspends will be the responsibility of the partner contributing the budget. This mitigates some risk, to the Council, in terms of overspend but the sustainability of such, moving forward, requires consideration. Underspends across the in-scope partnership budgets for 2016/2017 were transferred to reserves in line with the agreed strategy.
- 5.20. A medium/long term financial plan needs to be developed that recognises the risks associated with financial constraints and demographic growth. In addition, a strategy will require to be developed to manage the balance of care. This strategy will require to be supported by detailed business cases which take cognisance of service re-prioritisation, sustainable funding solutions and funding reallocations from a whole system perspective.
- 5.21. The final audit area in 2016/2017 sought to assess the arrangements and frameworks in place within the IJB to monitor and report on performance of the delegated functions.
- 5.22. This concluded that arrangements are in place to provide the IJB with a range of performance information and that, for a sample of indicators reported for Quarter 2 and Quarter 4 2016/2017, targets had been met and no specific improvement areas were identified.
- 5.23. IJBs are required to agree a performance framework to monitor performance of delegated functions in line with the IJB Strategic Plan and the Integration Scheme outlines the performance management requirements for the IJB in terms of the provision of regular reports to the IJB from both the Council and NHS on the delivery of integrated services.
- 5.24. The IJB has established a Performance and Audit Sub-Committee as part of these arrangements whose responsibility is to track progress against outcomes and support the overall governance and scrutiny of the IJB's functions. A wide range of performance information/reports are utilised to support decision making within the IJB and are being further developed as locality structures are established.
- 5.25. Forum members are asked to note performance and findings detailed above and in relation to the assignments detailed at Appendix Two.

## **6. Progress Against Strategy**

- 6.1. The Public Sector Internal Audit Standards (PSIAS) requires progress against the audit strategy to be monitored and reported to the Forum as part of regular monitoring reports that are presented at each meeting.
- 6.2. Delivery of the strategy will be evidenced by completion of the 2017/2018 Plan and this will be monitored through the performance indicators regularly reported to the Forum. Any subsequent changes to the Plan will be presented to the Forum which will include an assessment as to the impact such changes would have on the delivery of the overall audit strategy.

## **7. Compliance with the Public Sector Internal Audit Standards (PSIAS)**

- 7.1. The validated self-assessment exercise is nearing completion and no significant issues have been identified to date.

7.2. It is anticipated that the output from this exercise will now be reported to the Forum in January 2018.

## **8. Employee Implications**

8.1. There are no employee issues.

## **9. Financial Implications**

9.1. At present a breakeven position is forecast to the end of the financial year for the Internal Audit section.

## **10. Other Implications**

10.1. The main risks to the delivery of the Audit Plan are vacancies and team up-skilling requirements, unforeseen service demands and delays with client sign-off. These are mainly mitigated by coaching and training, regular meetings and escalation processes as well as inclusion of contingency time within the annual plan.

10.2. There are no implications for sustainability in terms of the information contained in this report.

## **11. Equality Impact Assessment and Consultation Arrangements**

11.1. There is no requirement to equality assess the contents of this report.

11.2. Heads of Service are consulted on each and every audit assignment.

**Paul Manning**

**Executive Director (Finance and Corporate Resources)**

13 October 2017

### **Link(s) to Council Values/Objectives**

- ◆ Objective – Governance and Accountability

### **Previous References**

- ◆ Integrated Health and Social Care to RASF 19 May 2015
- ◆ Internal Audit Plan 2017/2018 7 March 2017
- ◆ Progress report to RASF 14 June 2017
- ◆ Progress report to RASF 20 September 2017

### **List of Background Papers**

- ◆ Figtree extracts of Action Plans

### **Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

Yvonne Douglas, Audit and Compliance Manager

Ext: 2618

(Tel: 01698 452618)

E-mail: [yvonne.douglas@southlanarkshire.gov.uk](mailto:yvonne.douglas@southlanarkshire.gov.uk)

**Key audit performance indicators as at 30 September 2017**

**Appendix One**

Indicator	Numbers	Percentage	Target	Comment
Assignments delivered within budget	20/22	91%	80%	
Draft reports delivered within 6 weeks of file review	15/18	83%	80%	
2017/2018 Audit Plan completed to draft by 30 April 2018	7/67	10%	100%	80% of 2017/2018 Audit Plan has been started.
Internal Audit recommendations delivered on time	28/29	97%	90%	
Client to agree findings and actions within 4 weeks of draft issue	10/15	67%	80%	Relatively few additional reports finalised in period. Target impacted by year-end work priorities.

Job no.	Assignment name	Draft Issue	Final Issue	Assurance Info
<b>Prior Year</b>				
I941063	Integrated Health and Social Care Governance Gaps 2016/2017	12/09/2017	12/09/2017	Reported to IJB
I941064	Integrated Health and Social Care Performance Management 2016/2017	12/09/2017	12/09/2017	Reported to IJB
I942065	Integrated Health and Social Care Financial Management 2016/2017	12/09/2017	12/09/2017	Reported to IJB
I948066	Integrated Health and Social Care Admin, Meetings and Annual Report 2016/2017	12/09/2017	12/09/2017	See 5.2 – 5.23

<b>2017/2018</b>				
I256064	Taxi Scrutiny Group 2017/2018	01/09/2017	01/09/2017	Participation in Council-wide contract scrutiny groups throughout the year and provision of assurance surrounding the robustness of the process at each stage.
I672118	Misuse of Resources	01/09/2017	01/09/2017	Personnel investigated and no further action required.
I674107	Social Work Resources facility - theft	01/09/2017	01/09/2017	Theft of client's jewellery. Matter passed to Police.
I675119	Fleet Services - Break In	01/09/2017	01/09/2017	Security review undertaken by Security Manager and issues addressed. Internal Audit followed up and confirmed implementation of actions.
I210067	Journal Entry Data (External Audit)	28/09/2017	28/09/2017	Provision of data to External Audit.