



# Item No. 8

Meeting Date **Wednesday 13<sup>th</sup> June 2018**

## **Glasgow City Integration Joint Board Finance and Audit Committee**

**Report By:** Chief Internal Auditor to the Integration Joint Board  
**Contact:** Duncan Black, Head of Audit and Inspection  
**Tel:** 0141 287 4053

### **CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2017/18**

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| <b>Purpose of Report:</b> | To present to the Finance and Audit Committee the Chief Internal Auditor's Annual Report for 2017/18. |
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| <b>Background/Engagement:</b> | The Integration Joint Board is required to comply with Article 7 of the Local Authority Accounts (Scotland) Regulations 2014. The regulations requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing. |
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| <b>Recommendations:</b> | The IJB Finance and Audit Committee is asked to:<br><br>a) note the content of the report. |
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#### **Relevance to Integration Joint Board Strategic Plan:**

To provide assurance on various aspects of the Strategic Plan.

#### **Implications for Health and Social Care Partnership:**

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|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Reference to National Health &amp; Wellbeing Outcome:</b> | n/a                                                                                                                                                                                |
| <b>Personnel:</b>                                            | None                                                                                                                                                                               |
| <b>Carers:</b>                                               | None                                                                                                                                                                               |
| <b>Provider Organisations:</b>                               | None                                                                                                                                                                               |
| <b>Equalities:</b>                                           | None                                                                                                                                                                               |
| <b>Financial:</b>                                            | None                                                                                                                                                                               |
| <b>Legal:</b>                                                | The IJB will be compliant with:<br>- The Integrated Resource Advisory Group guidance in relation to audit provision.<br>- The Local Authority Accounts (Scotland) Regulations 2014 |
| <b>Economic Impact:</b>                                      | None                                                                                                                                                                               |
| <b>Sustainability:</b>                                       | None                                                                                                                                                                               |
| <b>Sustainable Procurement and Article 19:</b>               | None                                                                                                                                                                               |
| <b>Risk Implications:</b>                                    | None                                                                                                                                                                               |
| <b>Implications for Glasgow City Council:</b>                | The current internal auditors of the Council will continue to report to the Council on operational matters relating to Social Care services in the first instance.                 |
| <b>Implications for NHS Greater Glasgow &amp; Clyde:</b>     | The current internal auditors of NHSGG&C will continue to report to the NHS Board on operational matters relating to NHS services in the first instance.                           |

## 1. Introduction

- 1.1 The Local Authority Accounts (Scotland) Regulations 2014 require the effectiveness of the system of internal control to be reviewed annually and the Committee to assess the efficiency and effectiveness of the Internal Audit function. The Regulations also require an Annual Governance Statement to be approved.
- 1.2 The objective of this report is to provide a review of the performance of Internal Audit for the year 2017/18 and to give an opinion on the adequacy of the Glasgow City Integration Joint Board's system of internal control.
- 1.3 Internal Audit is an independent appraisal function within Glasgow City Council (the Council), and the Head of Audit and Inspection was appointed as the Chief Auditor of the Glasgow City Integration Joint Board. The objectives of Internal Audit (taken from the Audit Charter) are to:
- examine and evaluate internal control systems and governance arrangement;
  - give assurances to Board Members and senior officials on the adequacy and robustness of these systems; and
  - assist Board Members, the Chief Officer and other officers of the Glasgow City Integration Joint Board in the effective discharge of their responsibilities.

The full Audit Charter is included at Appendix 1.

- 1.4 The work of Internal Audit is based on an annual audit plan which is prepared after a risk assessment of all potential audit issues identified by Internal Audit, senior officers, the Chief Officer and the Chief Officer Finance and Resources and takes account of the work of the external auditor, Audit Scotland.
- 1.5 Internal Audit adheres to standards and guidelines laid down by relevant bodies and professional institutions. In particular Internal Audit is required to comply with the Public Sector Internal Audit Standards (PSIAS) which have been adopted by the Relevant Internal Audit Standard Setters (RIASS). The RIASS includes, among others, HM Treasury, the Scottish Government and the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.6 The PSIAS include key principles that public sector Internal Audit functions must follow and cover a range of areas including governance, performance standards and reporting requirements. As part of the standards, Internal Audit is required to undertake annual self-assessments. The PSIAS also introduced a requirement for an external assessment of an organisation's Internal Audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The 2017/18 self-assessment and external assessment (undertaken in 2015/16) have confirmed that Internal Audit conforms with the requirements of the PSIAS. A Quality Assurance and Improvement Programme is an assessment of all the work performed by the internal audit team. The Quality Assurance and Improvement Plan is included at Appendix 2.

- 1.7 The work of Internal Audit is reviewed by Audit Scotland. This allows them, where appropriate, to place reliance on the work of Internal Audit and to plan their work without duplication of effort and unnecessary disruption. Audit Scotland's review of Glasgow City Council's Internal Audit team as part of their 2017/18 external audit plan for Glasgow City Council concluded that it has sound documentation standards and reporting procedures in place and it complies with the main requirements of the Public Sector Internal Audit Standards.

### **The Role of the Chief Auditor**

- 1.8 The CIPFA guidance in relation to "The Role of the Head of Internal Audit in Public Service Organisations" is intended to provide best practice for Heads of Internal Audit to achieve.
- 1.9 The role of the Chief Auditor for the Glasgow City Integration Joint Board meets the principles set out in CIPFA's statement.

### **Review of Internal Audit 2017/18**

#### **Resourcing**

- 1.10 The Chief Auditor reviewed the current number of staff within Internal Audit and the skills of the team and has concluded that it is adequately resourced and has the necessary skills to carry out its function.

**Table 1. Audit Team – Establishment (as at 31 March)**

|   |                                                          | <b>2016/17</b> | <b>2017/18</b> |
|---|----------------------------------------------------------|----------------|----------------|
| 1 | Number of CCAB Qualified staff (FTE*)                    | 14.28          | 13.15          |
| 2 | Number of PINS Qualified staff (FTE)                     | 6.9            | 6.9            |
| 3 | Number of IT Professional officers (FTE)                 | 0              | 1              |
| 3 | Number of Trainees (FTE)                                 | 4              | 5              |
| 4 | Number of Technical/Administrative staff (FTE)           | 1              | 1              |
| 5 | Training Days (incl professional qualification)          | 152.5          | 149.5          |
| 6 | Training Days per Staff Member                           | 5.87           | 5.54           |
| 7 | Sickness absence per staff member (annual target 5 days) | 1.12           | 2.83           |

\* Full Time Equivalent

## **Audit plan management – Planned Assurance Work**

1.11 During 2017/18 fieldwork for the following assurance reviews was completed, with a total of 57 days allocated:

- Risk management arrangements and compliance
- Financial planning
- Compliance with the approved Integration Scheme
- Arrangements for the integration of services
- Arrangements for the issuing, monitoring and reporting of directions.
- The arrangements in place for the review of the strategic plan.

## **2. 2017/18 Audit issues**

2.1 Where the audit opinion arising from an audit states that the control environment has been assessed as unsatisfactory the concerns highlighted are reported here and in the Annual Governance Statement. In 2017/18 there were no unsatisfactory audit opinions issued.

2.2 The Glasgow City IJB commissions Glasgow City Council and NHS Greater Glasgow and Clyde to provide services on its behalf. As such, any significant governance issues reported in either the Council's or NHSGGCs Annual Governance Statement are considered for relevance to the Glasgow City Integration Joint Board. There were no significant issues reported in either the Council's or NHS Greater Glasgow and Clyde's 2017/18 Annual Governance Statement relevant to the Glasgow City Integration Joint Board.

## **3. 2017/18 Audit Workplan**

3.1 There was no material change to the Audit Plan approved by Committee in April 2017 and all planned fieldwork has been completed. The results of all assurance audits undertaken at the Integration Joint Board are reported to the Finance and Audit Committee and Internal Audit will undertake follow up work during 2018/19 to confirm implementation of the agreed recommendations. Committee will be provided with 6 monthly updates on this work.

#### **4. Update on Governance Issues reported in 2016/17**

- 4.1 There was only one significant governance issue in 2016/17 specific to the IJB which was in relation to financial planning. The IJB had significant uncertainty over its budget for 2017/18 as the Board had accepted the Chief Officer, Finance and Resources, recommendation not to accept the NHS Greater Glasgow and Clyde part of the allocated budget.
- 4.2 The Board approved the IJBs budget for 2017/18 at its meeting in September 2017. This included the solution to the unallocated savings on a non-recurring basis for 2017/18 with a permanent solution for 2018/19 onwards.
- 4.3 At its meeting in March 2018, the Board was provided with a report on the financial allocations and budget for 2018/19. The Board accepted the Chief Officer, Finance and Resources, recommendation to conditionally accept the interim budget allocations from NHS Greater Glasgow and Clyde and Glasgow City Council, subject to a formal letter being issued by NHSGGC and clarification of savings being received from Glasgow City Council. The Chief Officer, Finance and Resources, did not receive a confirmed position from NHSGGC until 1 May 2018. Proposals to meet the savings from Glasgow City Council were also confirmed. The Board approved the budget for 2018/19 at its meeting in May 2018.

#### **5. Opinion**

- 5.1 The Glasgow City Integration Joint Board has a system of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 5.2 Based on the audit work undertaken, the assurances provided by the Chief Officers of the Integration Joint Board, Executive Directors of Glasgow City Council Services, and the Senior Management Teams of services within NHS Greater Glasgow and Clyde, and excluding the issues noted above, it is our opinion that reasonable assurance can be placed upon the control environment which operated during 2017/18.

#### **6. Recommendations**

- 6.1 The IJB Finance and Audit Committee is asked to:
  - a) note the content of the report.



## Internal Audit Charter

### Introduction

The Internal Audit Charter formally defines the purpose, authority and responsibility of Internal Audit, in accordance with the Public Sector Internal Audit Standards (PSIAS) adopted by the Relevant Internal Audit Standard Setters.

Internal Audit is led by the Head of Audit and Inspection and reports directly to the Executive Director of Financial Services with open access to the Chief Executive.

The Internal Audit Charter will be reviewed and reported to Senior Management and Committee as appropriate.

### Definitions

The PSIAS include specific definitions that have been interpreted as:

*Chief Audit Executive* – the Head of Audit and Inspection

*Board* – the appropriate Council Committee with responsibility for audit matters

*Senior Management* – Council senior officers

### Purpose

Internal Audit is defined within the PSIAS as an independent, objective assurance and consulting activity designed to add value and improve an organisations operations.

The Head of Audit and Inspection provides the Chief Executive, senior Council officers and Elected Members with an annual opinion on the adequacy of the Council's system of internal control including the arrangements in subsidiary bodies that are incorporated into the Council's group. It is management's responsibility to implement and maintain effective internal control systems within its area of responsibility. It is Internal Audit's role to assist management by reviewing and evaluating the effectiveness of those control systems.

## **Role of the Head of Audit and Inspection**

The CIPFA guidance in relation to “The Role of the Head of Internal Audit in Public Service Organisations” is intended to provide best practice for Chief Audit Executives to achieve, and for audit committees to measure Internal Audit against. The statement sets out an overarching principles-based framework which applies across the UK public sector. It states that the Chief Audit Executive plays a critical role in delivering an organisation’s strategic objectives by:

- championing best practice in governance and management, objectively assessing the adequacy of the management of existing risks, and commenting on responses to emerging risks and proposed developments; and
- giving an objective and evidence-based opinion on all aspects of governance, risk management and internal control.

## **Authority**

Internal Audit’s authority is derived from policies, procedures, rules and regulations established by the Council. These include, but are not limited to, the Financial Regulations, the Whistleblowing and Response Policy and the Code of Conduct.

Internal Audit:

- Has unrestricted access to all Council records, cash, property, assets and people, where necessary on demand and without prior notice;
- Can obtain explanations as is required to satisfy the probity of any matter under consideration;
- Can require the production of any records and other such property as is deemed necessary, and
- Requires all senior officers to report all actual or perceived losses (cash, stock, equipment or data), all suspected or actual instances of theft, embezzlement, fraud, corruption or any other impropriety.

## **Scope**

The scope of Internal Audit’s work includes:

- All Council systems, processes, policies, plans and procedures;
- Use and safeguarding of resources and assets, including data;
- Governance and risk management processes;
- Commissioning and procurement;
- Projects and programmes;
- Whistleblowing and Fraud, including investigation of allegations of fraud and corruption;
- All subsidiary and associate organisations that form part of the Council group;
- Strathclyde Pension Fund;
- Glasgow City Integration Joint Board;
- Glasgow City Region Cabinet, and
- Other section 106 bodies.



## **Resourcing and Audit Planning**

In line with PSIAS requirements Internal Audit develops a risk based audit plan which enables the Head of Audit and Inspection to provide an annual opinion on the adequacy of the Council's system of internal control. The plan is developed through an assessment of risk and assurance needs and is sufficiently flexible to reflect changing organisational risks and priorities. It is submitted to the appropriate Council Committee with responsibility for audit.

The annual audit plan sets out the planned audit resources for the year with the objective of giving an evidence-based opinion. It is the Head of Audit and Inspection's responsibility to ensure that Internal Audit is adequately resourced in order to carry out its function.

## **Independence and Objectivity**

The PSIAS define independence as "freedom from conditions that threaten the ability of the Internal Audit activity to carry out its responsibilities in an unbiased manner". To assist Internal Audit to carry out the role and constructively challenge senior managers of the Council, the Head of Audit and Inspection holds a sufficiently senior position in the Council. Senior Officers and those charged with governance have input into the annual audit plan however they do not direct the plan.

Auditors challenge, on the basis of objective evidence, decisions, policies or practices they consider inappropriate or in need of improvement, no matter who is involved in the decision making. It is essential for Council officers and Elected Members to recognise Internal Audit's role and responsibilities and accept Internal Audit comment and advice in this spirit, giving a reasoned response if they take a different view.

Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activities or processes audited. They make a balanced assessment of relevant circumstances and are not unduly influenced in forming judgements by their own interests or others.

Objectivity and independence in the provision of advice and guidance are maintained, and conflicts of interest avoided. Internal Audit has no operational responsibility for, or authority over, activities audited and all officers undertaking audit work are required to complete declarations of interest annually, including "nil" returns. Where Internal Audit officers are deemed to have operational involvement, they must remove themselves from any related Internal Audit activity.

## **Other Work**

Internal Audit will consider all requests for additional work, outwith the audit plan, on agreement with relevant senior officers. This includes attendance at working groups and offering advice and guidance.

In addition Internal Audit will seek opportunities to share expertise with other public sector organisations, where resources permit and where there is no impact on the ability to deliver the level of assurance required to enable the Head of Audit and Inspection to provide an annual opinion.

## **Quality**

All Internal Audit work is undertaken in compliance with the PSIAS and is subject to regular internal quality reviews with the results of these reviews reported to a Quality Management Review Team. External quality reviews are also undertaken through a 5-yearly external quality assessment. Internal Audit is also ISO9001 quality accredited, which is reviewed annually.

## **Glasgow City Council – Internal Audit**

### **Quality Assurance and Improvement Programme (QAIP)**

#### **Introduction**

Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of Glasgow City Council Internal Audit Services that Internal Audit:

1. Performs its work in accordance with its Audit Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing, Code of Ethics and ISO 9001: 2008,
2. Operates in an efficient and effective manners; and
3. Is adding value and continually improving Internal Audit operations.

The Head of Audit and Inspection is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including Audit Glasgow activity. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

#### **Internal Assessment**

Internal assessment is made up of both ongoing reviews and periodic reviews.

#### **Ongoing reviews**

Ongoing assessments are conducted through:

- Audit Manager supervision of audit assignments
- Audit Manager review of electronic working papers and associated evidence during each audit assignment
- Audit policies and procedures used for each audit assignments including the Audit Manual, and Quality Policies and Guidance Notes to ensure compliance with applicable planning, fieldwork and reporting standards.
- Customer surveys for audit assignments to gain client feedback which feeds through to improvement plans and opportunities for improvement.
- Analysis of key performance indicators to manage Internal Audit effectiveness and efficiency
- All draft and final reports are reviewed by a member of the Internal Audit Senior Management team prior to issue.

#### **Periodic reviews**

Periodic assessments are designed to assess conformance with the Audit Charter, the Public Sector Internal Audit Standards, Definition of Internal Auditing, the Code of Ethics and the Quality procedures and are conducted through:

- Internal quality audits undertaken in accordance with the Internal Audit Quality Procedures.
- Review of internal audit performance key performance indicators by the Senior Management team.
- Monthly Managers meetings to discuss ongoing performance issues and delivery of the Audit Plan
- Quarterly activity and performance reporting to the Financial Services Leadership Team
- Annual self assessment review of compliance with the Public Sector Internal Audit Standards
- 6 monthly activity and performance reporting to Extended Corporate Management Team (the Council's Corporate Management Team plus all Managing Directors/Chief Executives of the Council's Arms Length External Organisations).
- 6 monthly activity and performance reporting to Elected Members through the the Committee responsible for Audit matters.
- Head of Audit and Inspection's Annual Report to Elected Members on internal audit activity for the previous year.

### **External Assessment**

External Assessment will appraise and express an opinion about Internal Audits conformance with Standards.

An External Quality Assessment (EQA) will be conducted every five years by a qualified, independent assessor from outwith the Council. The current EQA was undertaken by Manchester City Council during 2015/16 and is therefore not due again until 2020/21.

An annual review, and three-year re-certification review is undertaken by British Standards assessors as a requirement of our ISO9001:2008 accreditation. The latest review was undertaken in April 2018.

Annual review by Audit Scotland (the Council's External Auditors) on the assessment of Internal Audit reported to Chief Executive and the Council Committee responsible for Audit matters.

## **Reporting**

Internal Assessments – reports on internal assessments are reported to the Internal Audit Senior Management Team, the Financial Services Leadership Team and the Council Committee responsible for Audit matters.

External Assessments – results of external assessments will be reported to the Council Committee responsible for Audit matters, the Chief Executive and Executive Director of Financial Services.

Follow up – the Head of Audit and Inspection will be responsible for implementing all agreed actions arising from both internal and external assessments within the agreed timeframes.