

Integration Joint Board Internal Audit Annual Report and Assurance Statement 2020-2021

4th June 2021

I Introduction

- 1.1 This report aims to provide the Audit Committee with an evaluation of elements of the Integration Joint Board's (IJB) internal control, risk management and corporate governance systems based on our work during 2020/21 and to summarise the Internal Audit coverage in the year.
- 1.2 Corporate governance is the system by which the IJB directs and controls their functions and relate to their communities. The three fundamental principles of corporate governance are openness, integrity and accountability. A sound system of internal control must be maintained to support the IJB in operating effective corporate governance arrangements.
- 1.3 Good governance practice and internal control suggests that:-
- IJB Members should set appropriate policies on internal control and seek regular assurance that the system of internal control is functioning effectively;
 - Management should implement the IJB policies on internal control and design, implement and monitor suitable systems;
 - a well-established and effective Audit and Scrutiny function should be in place within the IJB;
 - a local Code of Corporate Governance exists and reviewed annually; and
 - Internal Audit should provide an independent assessment of the adequacy of the system of internal control.
- 1.4 The IJB has taken this approach to comply with best practice and has produced a full governance statement for the 2020/21 financial year end.
- 1.5 To support the governance statement the IJB will need to carry out a review of the effectiveness of internal control, deriving evidence from a variety of sources including Internal Audit, Senior Managers within the IJB with responsibility for developing and maintaining internal control and cognisance of external/internal audit recommendations along with recommendations of other regulatory bodies. The production of the Governance Statement is being led by the IJB's Chief Officer.
- 1.6 This report provides internal audit information in support of the assurance statements and covers the period from 1 April 2020 to 31 March 2021. The attached Appendix reports the internal audit activity against the operational Audit Plan.

II Overall assessment

- 2.1 We are able to provide assurance on the adequacy of internal controls and governance arrangements within the IJB arising only from the results of internal audit reviews we have completed during the period in accordance with the programme of Internal Audit work approved by the Audit Committee. In this context, it is important to note that:
- (a) it is management's responsibility to maintain internal control and good governance arrangements on an ongoing basis;
 - (b) the Internal Audit function forms part of the overall internal control and governance structure of the organisation;
 - (c) while we have planned our work so that we have a reasonable expectation of detecting significant control and governance weakness, internal audit procedures alone do not prevent the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances;
 - (d) a sound system of corporate governance and internal control provides reasonable but not absolute assurance that the Comhairle will not be hindered in achieving its objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen. However, a system of corporate governance and internal control cannot provide protection with certainty against any organisation failing to meet its objectives or all material errors, losses, fraud or breaches of laws or regulations;
 - (e) it is the responsibility of Internal Audit to assess the adequacy of the internal control and governance processes as far as it is reasonably possible by reviewing arrangements put in place by management and to perform testing to confirm whether those controls were operating for the period under review;
 - (f) reasonable expectations of Senior Management, the Audit Committee and other stakeholders have been taken into account in terms of our duty to report all matters which come to our attention for the period under review; and
 - (g) it is the responsibility of each of the parent bodies Internal Audit Service to assess, identify and report findings as they arise to the relevant officers and committees. As the appointed IJB Auditor, we have been given access to each of the parent bodies internal audit reports and follow up reports for 2020/21.
- 2.2 In our reports issued to date we have made recommendations, where appropriate, to improve internal controls and promote good governance. On the basis of our sample testing of key controls, we concluded that these controls were generally operating as expected during the period under review, with some exceptions that have been reported to management. Appropriate responses to the recommendations made in our reports have been obtained and, if actioned, should provide management with additional comfort that the system of control operates as intended.

- 2.3 Summaries of the issues arising in relation to each system or activity covered by the internal audit work in 2020/21 have been reported to management and the Audit Committee throughout the year. We do not, therefore, propose to repeat the matters in this report. There have been no significant issues which have come to our attention that have not been reported to management.

III Analysis of Internal Audit Coverage and Performance

- 3.1 In respect of 2020/21 the Internal Audit days planned and delivered can be summarised as follows:

	Planned Audit Days	Amended Plan Days	Actual Days
Total	20	Not Applicable	20

- 3.2 We have been able to achieve 100% of the planned audit days allocated to the 2020/21 operational plan; this equates to all of the original planned audits having been completed by the 31 March 2021.
- 3.3 We have worked with IJB management and our appointed External Auditors, Audit Scotland to focus our work on those areas of the highest business risk to the Comhairle and those on which External Audit intend to place reliance.
- 3.4 At Appendix 1 we provide details of the internal audit work undertaken in 2020/21.
- 3.5 In 2020/21 we issued reports, which contained a variety of recommendations to improve the system of control. Follow up internal audit work has been and will continue to be undertaken to establish if the more significant recommendations made in those reports have been implemented as agreed. During the year we also issued a total of three follow up reports. It must be noted that where follow up reports identify partly implemented recommendations or insufficient progress, Senior Managers within the IJB must continue to monitor progress until fully implemented.
- 3.6 We also submitted formal progress reports to the Audit Committee throughout the course of the year.
- 3.7 We have completed the 2020/21 approved operational plan and have produced in consultation with the IJB's Management Team and our appointed External Auditors a three year strategic plan covering financial years 2019-2022.
- 3.8 Internal Audit monitors its performance in a number of ways. This allows us the opportunity to gauge the effectiveness of our service and may inform future improvements. Principally, we monitor performance by the use of client questionnaires which are issued after each piece of work and allow client departments to feedback contributions we have made to improve control, address any areas of value for money and raise any concerns.

- 3.9 We are pleased to report, from the questionnaires returned, that clients are generally very satisfied with our service. Appendix 2 provides visual results of our performance in 2019/2020.
- 3.10 CIPFA has issued a statement that sets out the role of the Head of Internal Audit in the public sector. A further revised document has been issued in April 2019 and we will be undertaking a gap analysis to identify any areas now requiring amendment or improvement. The purpose of this statement is to outline the core activities and behaviours that belong to the role of Head of Internal Audit and how these should influence and champion good governance, risk management and internal control. The IJB's Internal Audit section complies with the requirements contained within the statement in place until 31 March 2020.
- 3.11 CIPFA and the Institute of Internal Auditors (IIA) have reviewed the guidance and made amendments in order to have a common set of standards across the whole public sector. These changes are primarily based on the International Professional Practices Framework (IPPF). The new standards termed Public Sector Internal Audit Standards (PSIAS) became effective in April 2013 and amended in 2017, now instil a number of additional requirements on Internal Audit functions within the public sector and those Boards or Committees charged with governance.
- 3.12 A key requirement of the PSIAS is that Internal Audit sections are required to state whether or not they conform with these standards as part of their annual reporting. In addition, they should outline the results of the quality assurance and improvement programme together with progress against any improvements identified during this assessment.
- 3.13 In 2019/20 financial year, Internal Audit undertook a self-evaluation against the PSIAS, Local Government Application note and Quality Assurance Improvement Programme. The IIA has given examples of classifications of conformity against these standards and those are outlined in paragraph 314.
- 3.14 FC Fully Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in every respect.

GC Generally Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects.

PC Partially Conforms means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives.

DNC Does Not Conform means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category.

3.15 We are pleased to confirm that the IJB's Internal Audit function meets the highest threshold of these categories, Fully Conforms. Furthermore, it is a requirement of the new standards that all public sector Internal Audit sections will require to be independently assessed against these standards during a five year rolling period.

3.16 In terms of compliance with internal audit standards, an independent External Quality Assurance (EQA) was undertaken in January 2021. The findings of the EQA are summarised below:

Areas of Good Practice Identified

- Full compliance with the PSIAS;
- Qualified Internal Auditors with extensive local authority experience;
- Internal Audit staff who are enthusiastic, experienced and focused on providing a good and professional service;
- Well defined procedures which ensures that the service provided is robust, reliable and efficient in carrying out audit activity; and
- The ability of External Audit to place reliance on the work of Internal Audit.

A full copy of the EQA report can be accessed using the link below:


<https://www.cne-siar.gov.uk/media/16596/E%205B%20-%20Appendix%20-%20CNES%20External%20Quality%20Assurance%20Report%202021.pdf>

3.17 In terms of the Quality Assurance Improvement Programme (QAIP); areas requiring to be addressed and/or monitored include:-

- As budget constraints continue into the forthcoming financial years, it is important that those charged with duties of governance, specifically the IJB's Audit Committee have both confidence that the systems and processes operating within the IJB are effective and also that there is sufficient resources to enable such reviews to be undertaken. The IJB Audit Committee is required to determine whether the budget within the Internal Audit function meets both the needs of delivering the approved audit plan but also allows the Chief Internal Auditor to provide an annual opinion in terms of the IJB's governance, systems of risk management and internal control provisions. We do, however, acknowledge that the three year Strategic Audit Plan 2019-22 has been approved on the basis of a fixed input of 20 days for each year of the plan and an additional 5 days have been authorised by the IJB Audit Committee for 2020/21 should that be required.

IV Conclusions, Exceptions and Observations

- 4.1 We agreed a rolling programme of internal audit coverage based on an assessment of risk factors with Management and the Audit and Scrutiny Committee. This programme related to the level of available resources, focusing on high and medium high risk areas within the IJB. On the basis of the internal audit systems and work completed in respect of this year, we consider that the:

General Systems	Classification 2020/21	Change from 2019/20
Governance	Satisfactory	
Risk Management	Adequate	
Internal Control	Satisfactory	

Classification of Grading – What do we mean?

- Good – Excels in **all** key areas of good practice.
 - Satisfactory – substantially meets all key areas of good practice.
 - Adequate and/or Improving – attempting to meet or meets most key areas of good practice/ with effort being made to improve further.
 - Requiring Improvement – partially or fails to meet most key areas of good practice.
 - Poor – Does not meet any key areas of good practice.
- 4.2 The Public Bodies (Joint Working) (Scotland) Act 2014 provides the legislative framework for the integration of health and social care services in Scotland. It requires local authorities and health boards to integrate adult health and social care services – including some hospital services. It also provides the option locally to add-in Children’s Services, Criminal Justice and additional hospital based services. As of March 2021, the budget gap for the IJB 21/22 is £3.822m, with identified savings and financial flexibility of £3.822m including the use of brought forward Social Care Funding (full allocation cannot be spent within the time frame but will be used to support new ways of working developed during Covid). Many of the savings for 2021/22 are non-recurring due to the pandemic. The Chief Officer expects both partners to be on emergency footing for the first 6 months. Nonrecurring savings and one-off funding allow breathing space for the Chief Officer to develop a 3-year strategic plan taking on board, lesson learnt during the pandemic to allow the IJB to deliver a safe and effective service within the funding envelope. The Chief Officer is seeking to use the first 6 months of the year, whilst still in COVID response to develop a strategy and associated plans that build upon positive examples of change in service delivery in order that the IJB can realize the service

transformation required to deliver a balanced budget without the requirement to reduce headcount. The Chief Officer intends to work with Service Leads to co-produce operational plans to deliver this. A key influence of this work are the recommendations outlined in the Review of Adult Social Care authored by Derek Feeley.

- 4.3 The IJB Board could be looking at a £5m initial budget gap for 22/23 increasing to £6.6m for 23/24 (excluding COVID funding and expenditure and any funds provided by the Scottish Government for remobilisation of services. The cost pressures the Board is looking to mitigate over the next 3 years are as follows; Goathill Road £1.1m, increased acute mental health placements (transfer from Cahms) £0.2m, increasing risk of emerging care packages £0.500m, as well as above inflation price rises from prescribed drugs, this is together with the IJB underlying deficit of £2.1m. There is also an unknown disease and mental health burden in future years resulting from the pandemic which is as yet unquantifiable. It is imperative that transformational change drives recurring efficiencies, but we recognise that with the workforce and population demographics this will become more increasingly difficult to do. The IJB deficit mentioned is due in part to receiving flat cash from the Comhairle for 3-4 years i.e. no money to cover pay rises etc. at 3% per year that is approx. £500k per year.
- 4.4 It is now likely that in order to reduce year on year deficits which have been largely funded by reserves, that redesign of services may be needed to safeguard the long term financial viability of the IJB as the current position is unsustainable in the medium to long term. In 2019/20 we reduced our opinion in terms of risk management from adequate to requiring improvement and whilst the challenge is still ever present, additional income has provided an opportunity for reflective redesign and focused change that will need to be considered in meeting future financial pressure and service need. In 2020/21 we have moved our opinion up to adequate on the basis of monitoring these changes and redesign of services in the forthcoming year in order to assess whether this can be effectively achieved by the end of March 2022.
- 4.5 There is concern that filling posts across parent bodies is becoming ever more challenging together with low applicant numbers provides ongoing risk in terms of sustainability of services in the medium to long term. The need to look at alternative and pro-active methods of attracting new staff to the service will need to be considered and actioned by management. We are aware that a number of apprentice posts have been made available to school leavers and whilst such approaches are a good start, the need to take cognisance of the fast aging workforce will quickly off-set some of the new staff attracted to the service creating further pressure. IJB senior management have acknowledged that this is an area of concern going forward and represents a major risk and will require focused attention, together with the connection of the workforce plan so that additional mitigating measures can be put in place should that be required.
- 4.6 The Scheme of Integration was agreed in June 2015 and which provides information about which health and social care functions and services will be delivered by the IJB, together with key governance aspects of the scheme. By law this must be reviewed every five years and submitted to the Scottish Government for approval. As part of this review appropriate consultation with the public and stakeholders requires to take place in order to seek their views on any proposed changes and to consider all views expressed. We are advised that this process has commenced and is being informed by relevant officers of both parent bodies. It is nevertheless important that appropriate momentum is maintained and sufficient co-
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ordinating oversight of the process occurs, along with appropriate stakeholder consultation as required as part of the process. This review should be completed by June 2020, in terms of the legislation, whilst there is a risk that due to ongoing priorities with Coronavirus (COVID-19), delays may occur, this reporting requirement must be completed.

- 4.7 As part of our due diligence process and in accordance with best practice, we contacted each of the parent bodies Internal Auditors for the purpose of determining whether there were any significant matters arising from their work in 2020/21 which has not been reported to those charged with governance and/or whether any limitations were placed on their work and/or were their appointed External Auditors able to place reliance on their work. We are pleased to note that no matters of concern were raised by either of the parent bodies' internal auditors in relation to unreported matters. We note that where internal audit work was reported, appropriate action plans have been agreed to address any weaknesses identified and recommendations will be monitored by the relevant Audit Committee in accordance with standard protocols
- 4.8 We would like to acknowledge the work and unprecedented challenges faced by the IJB in relation to Coronavirus COVID-19 and the resilience shown in terms of preparation and readiness. It is situations such as these that the community the IJB serves recognises the importance of a cohesive and integrated approach to the delivery of health and social care services within the Western Isles. Whilst this report is focused largely on the financial, organisational and governance risks to the IJB, these should not detract from the valuable services provided within the Western Isles to those who benefit directly from the services provided across the IJB. It is, however, inevitable that the Coronavirus COVID-19 arrangements will have significant implications across the IJB both in terms of financial implications but also restricted and reduced services being available not to mention the service backlogs that may have accumulated.
- 4.9 In conclusion, we would also like to highlight our appreciation to the IJB's Audit Committee for their support over the year, together with the co-operation of the relevant officers of each parent body and appointed External Auditors, Audit Scotland

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4 June 2021

Details of the planning reports issued in 2020/21

Report title
IJB Operational Plan 2021/22

Details of the reports issued during 2020/21

Planned audit area	Date finalised	Status
Workforce Planning and Organisational Development	Final report issued 9th November 2020	Completed
Project Management of Capital Investment and Delivery	Final report issued 9th November 2020	Completed

Work excluded from plan/postponed

Planned audit area	Status
None.	

Details of the operational and audit documentation in place

Documentation
Internal audit manual and Charter
Revised internal audit review documentation – encompassing audit programme control design, test schedules, summary of findings
Client satisfaction surveys
Induction training
File retention policy
Anti-fraud, corruption, bribery and irregularity policy
Technical briefings

Conformance with the Public Sector Internal Audit Standards Definitions

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