

IJB Audit Committee 07.07.22

Item: 6.2

Purpose: For Discussion



**Integration Joint Board  
Internal Audit Annual Report and  
Assurance Statement  
2021-2022**

**7 June 2022**

## **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 2021/22 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 2021/22 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 2021 to 31 March 2022. 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 2021/22.
- 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 2021/22 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 2021/22 the Internal Audit days planned and delivered can be summarised as follows:

	<b>Planned Audit Days</b>	<b>Amended Plan Days</b>	<b>Actual Days</b>
<b>Total</b>	20	Not Applicable	20

- 3.2 We have been able to achieve 100% of the planned audit days allocated to the 2021/22 operational plan; this equates to all of the original planned audits having been completed by the 31 March 2022.
- 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 A we provide details of the internal audit work undertaken in 2021/22.
- 3.5 In 2021/22 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 2021/22 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 B provides visual results of our performance in 2021/2022.
- 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 2022.
- 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 2021/22 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 3.14.
- 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 in relation to the work undertaken for the IJB. 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:

- The IJB Audit Committee requires to consider the ability of the Comhairle's Internal Audit section to continue to provide services to the IJB in light of two vacancies and a loss of critical qualified staff at Chartered Auditor/Chartered Accountant level. The most appropriate option is for the IJB audit work to be transferred in full to another provider, thereby providing the managerial and operational services to the IJB. We understand that the IJB's Chief Financial Officer has written to the Comhairle seeking how the service will be provided going forward and providing an option for seeking support from the Health Board's current Internal Auditors.

## 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 2021/22	Change from 2020/21
Governance	Satisfactory	↔
Risk Management	Requiring Improvement	↓
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. We understand that the budget gap for the IJB 2022/23 is £3.808m, this assumes that the Goathill Care Home only will be open with substantive posts filled within six months – any double running costs or agency costs will have to be met from reserves. In order to close the financial gap, there is £1,271 identified savings, use of £303K NHS specific reserves, £834K general reserves and £1,400K increased grant not fully required to cover living wage in the private sector. The IJB Chief Financial Officer has outlined that the ‘flat-cash’- settlement from the Comhairle is an unsustainable model which requires to be addressed. This position will need to be further discussed between parent bodies and a common agreement found in order to address the concerns raised over joint funding.

- 4.3 The IJB have two significant capital developments either in progress or at planning stage. In respect of the Goathill Care Complex there is concern raised that the complex will not immediately open in the configuration anticipated in the original plan. Whilst the financial gap has been largely addressed, staffing levels continue to be a significant concern, particularly the need to attract 31 new workers to just be able to open the home side of the complex (25 new posts and 6 vacancies). We further understand that 59 new workers would need to be recruited to in order to cover the full opening of the complex. This represents a concerning risk both in terms of operational ability but also reputational given the scale of staff resources which need to be attracted. It is imperative that contingency arrangements are made in order that only when there are 'safe' staffing levels in place can transfer of residents in existing facilities then commence. Concerns regarding this matter have been communicated across the IJB and respective parent bodies, however, we regard this as a critical concern for the IJB.
- 4.4 It is now likely that in order to reduce year on year deficits which have been largely to date funded by reserves, fortuitous cash windfalls and underspends, there is a need for redesign of services to safeguard the long- term financial viability of the IJB as the current position is unsustainable in the medium to long term. In 2021/22 our opinion in terms of risk management is that it requires improvement and whilst the challenge is still ever present, the opportunity for reflective redesign and focused change will now need to be considered in meeting future financial pressure and service need. In addition, we understand that the post of Head of Community is vacant, it is anticipated that this will be addressed through a secondment of an existing Head of Service requiring expansion of current portfolio with limited backfill. At the time of reporting this is still to be approved by Human Resources., although we are advised that the Comhairle's Human Resources Sub-Committee will consider this recommendation at a special meeting to be held on 8 June 2022. Whilst these interim arrangements have been deemed appropriate by the Comhairle, there is clearly risk associated with over reliance on one officer.
- 4.5 In addition to the previously mentioned concerns regarding the staffing requirements for the new Care Complex at Goathill, there are also worrying trends of vacant posts being carried within the homecare service, at the time of preparing this report these stood at 40 plus vacancies. This creates a challenging and potentially serious problem where 'unmet' care needs are at high levels with circa 70 individuals in the community awaiting care, one of whom was on the waiting list for 457 days and the average being 175 days. Whilst the service is saving significant sums of money on unfilled posts, the reality is that care is not being provided when there is a clear need for it by those individuals on the waiting list and who may be experiencing negative personal impact as a result. We understand that there is distinct and varied risk associated with this position, both for those awaiting care but also those who are impacted due to delayed discharge. This position may have further implications in terms of adult protection and may need to be additionally assessed and reviewed in cognisance of best practice.
- 4.6 The pressures on staff working within Community Care are high, including management of the function which we rightly acknowledge. There are, however, very high sickness levels within the service, specifically, 10.5% in quarter 1, 10.1% quarter 2 and 14.2% in quarter 3. This could in part indicate that existing staff are under significant burden compounded by the previous



requirements to isolate for coronavirus. The need to ascertain the reasons for significant increase in sickness needs to be better understood in order to determine the specific reasons and what can be done to reduce these going forward. This may also be equally applicable to other areas within the IJB where sickness levels remain high.

- 4.7 Whilst there is a need to look at alternative and pro-active methods of attracting new staff to the service this 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 ageing 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 significant 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. We are nevertheless concerned as these trends continue and where little impact has been event, despite efforts to promote the vacancies.
- 4.8 The second major infrastructure project is the Castlebay and Vatersay Campus in which the replacement to the existing care and hospital provision would be accommodated. At the time of writing this report there remains significant gap in the financial costs which were initially calculated at £3.8M but this is likely to be much higher as the costs of materials have increased substantially since the initial calculations. It is also noted that there are various concerns which have been raised within the community over the project. The project in its current form and plan may not be financially viable which may either require significant change or indeed abandonment. The IJB will need to consider the implications of this in terms of its future service provision of health and social care within that geographical area, if additional funding to meet increasing costing estimates are not met. Notwithstanding the above, there are fundamental concerns over the available workforce going forward and the difficulties recruiting nursing and care staff which may be even more acute than is the case at present.
- 4.9 In our role as Auditors, we have noticed that there has been increasing ‘tensions’ and ‘strains’ at senior level between the two parent bodies of the IJB, specifically the Comhairle and Health Board. This is a disappointing development in which the IJB and IJB Audit Committee will need to closely monitor going forward in order that service delivery and/or transformation are unaffected.
- 4.10 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. In March 2020 the Scottish Government stated that they would not require a full review to be carried out at that time due to the onset of the coronavirus pandemic and that, as a minimum, an initial review should be fulfilled. It also noted that the current integration scheme would remain in place until such time when a successor scheme be produced, if required. A report submitted to the IJB in September 2020 reiterated the need for an initial review, suggesting that dispute resolution be one area covered, and further recommended that a complete review be carried

out by 1 April 2021 once a Chief Officer was in post. The board subsequently agreed that a full review be carried out as above. A letter issued to all IJB's in August 2021 reiterated that scheme reviews were still outstanding in some areas and that this was still required, notwithstanding the NCS Consultation, as it was envisaged that the NCS would likely be in place by the end of the parliamentary term. It went on to request a timeline when reviews and related consultations would be undertaken and stated that, given the timescales for the NCS to be in place, scheme reviews must now be done at pace. We understand that due to the pressure on Health and Social Care at this time, it has not been possible to undertake a full review of the scheme. We were also informed that once more information was known regarding the outcome of the NCS consultation, this would be provided, however, this would likely be into April 2022. Furthermore, we understand that it had been agreed with the Scottish Government that a "light touch" review could be undertaken. We were later informed that an informal, "light touch" review, has been undertaken focusing specifically on dispute resolution. However, the board should consider whether a full review of the scheme is still required in line with its original request as outlined above. The Chief Officer will need to provide the IJB with an update of any progress on this matter. An update should also be provided to the Scottish Government as appropriate as to the current status of the scheme review and with an indication of timelines when this will be complete including any consultation processes that may be required.

- 4.11 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
- 4.12 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, readiness and now transition back to a normal footing. 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.
- 4.13 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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7 June 2022

Details of the planning reports issued in 2021/22

Report title
IJB Operational Plan 2021/22

Details of the reports issued during 2021/22

Planned audit area	Date finalised	Status
Consultation, Participation and Engagement	1 <sup>st</sup> February 2022	Completed
Information Governance and Data Sharing	1st February 2022	Completed
Scheme Review (5 Year Review)	1st February 2022	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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