



## Audit and Performance Systems Committee

<b>Report Title</b>	Internal Audit Annual Report and Internal Financial Control Statement 2016/17
<b>Lead Officer</b>	David Hughes, Chief Internal Auditor
<b>Report Author (Job Title, Organisation)</b>	David Hughes, Chief Internal Auditor
<b>Report Number</b>	HSCP/17/048
<b>Date of Report</b>	9 June 2017
<b>Date of Meeting</b>	20 June 2017

### 1: Purpose of the Report

The purpose of this report is to provide the Committee with Internal Audit's Annual Report and Internal Financial Control Statement for 2016/17.

### 2: Summary of Key Information

It is one of the functions of the Integration Joint Board Audit and Performance Systems Committee to review the activities of the Internal Audit function, including its annual work programme.

The Internal Audit plan for 2016/17 was agreed by the Committee on 16 August 2016 following agreement of the reporting arrangements for Internal Audit outputs in Aberdeen City Council, NHS Grampian, and the Integration Joint Board. The plan consisted of one audit for the IJB with a number of specific audits agreed by Aberdeen City Council's Audit, Risk and Scrutiny Committee relating to Adult Social Care in the Council and by NHS Grampian's Audit Committee in relation to audits for that body.

The resultant outputs are reported as follows:

- IJB Internal Audit reports reported to the IJB Audit Committee in the first instance and thereafter to the Aberdeen City and NHS Grampian Audit Committees.
- Aberdeen City Council Adult Social Care audits reported to Aberdeen City Council's Audit, Risk and Scrutiny Committee in the first instance and thereafter to the IJB Audit Committee.
- Audits in NHS Grampian to the NHS Grampian Audit Committee in the first



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instance and thereafter to the IJB Audit Committee for relevant audits.

Appendix A to this report details the position with audits contained in the 2016/17 plan and those carried forward from 2015/16.

It is considered that sufficient work was completed during the year, or was sufficiently advanced by the year-end, on which to base the conclusion drawn in the annual Internal Financial Control Statement. This is supplemented by review of other relevant documentation, including Integration Joint Board and Audit and Performance Systems Committee papers, and the assessment of risk undertaken (by both Internal and External Audit) in updating the Internal (and External) Audit plan(s).

Internal Audit's annual opinion is attached as Appendix B, and concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2017.

The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor report to Senior Management and the Board on the outcome of Internal Audit's Quality Assurance and Improvement Plan (QAIP). The detail of this is reported to Aberdeen City Council's Audit, Risk and Scrutiny Committee with the result in relation to 2015/16 being that Internal Audit either Fully or Generally Complied with all areas examined. Where General Compliance was recorded, actions were determined with the intention of moving these areas to Fully Complies.

No internal self-assessment has been completed for 2016/17 as an external review is in the process of being completed by KPMG. The outcome of this review is scheduled to be reported to Aberdeen City Council's Audit, Risk and Scrutiny Committee in June 2017.

The Standards also require that Internal Audit confirms to the Board, at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by the Board on 29 March 2016). Other factors which help ensure Internal Audit's independence are that: the Internal Audit plan is approved by the IJB Audit and Performance Systems Committee; and Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor.

There is also a requirement to report any instances where the scope of Internal



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Audit's work has been limited. During 2016/17, there have been a two areas where Internal Audit's work has been limited:

- Internal Audit report AC1617 – Self-Directed Support:  
*“Although the Service has provided summary and detailed information and explanations on request, the scope of the audit has been restricted to a degree as the auditor was not granted access to CareFirst or the full detail of Support Plans and other records, due to concerns within the Service over compliance with data protection legislation. Whilst partial assurance has been obtained from the data and redacted documentation provided, there is a risk that omitted or redacted records could have contained information to confirm, add, or contradict findings raised within this report. The Service has stated that information redacted was third party and personal information relating to service users families only, however Internal Audit cannot verify this without access to the original documentation.”*
- Internal Audit report AC1709 – CareFirst System:  
*“As reported in previous Internal Audit reports the Service has not granted direct access to the live CareFirst system due to concerns over compliance with data protection legislation. Internal Audit has instead obtained assurance through examination of the processes and systems in place, discussion with key officers, redacted records provided by the CareFirst Team, and viewing data from the anonymised Test version of the system. Although the Service has stated that the Test and Live systems are directly comparable, restrictions on access to live data could have had an effect on the findings and the level of assurance obtained through the audit process.”*

The level of access that Internal Audit will have to the Care First System has now been agreed and is being arranged.

No Internal Audit reports have been received / reported to the IJB Audit and Performance Systems Committee from NHS Grampian's Internal Auditors during the year. NHS Grampian's Audit Committee will consider their Internal Auditors annual report on 27 June 2017. An update will be provided to the Audit and Performance Systems Committee when possible.



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### 3: Equalities, Financial, Workforce and Other Implications

An equality impact assessment is not required because the reason for this report is for Committee to discuss, review and comment on the Internal Audit Annual Report and Internal Financial Control Statement for 2016/17 and there will be no differential impact, as a result of this report, on people with protected characteristics.

There are no staffing or financial implications arising directly from this report.

### 4: Management of Risk

**Identified risk(s):** Good governance and internal controls are fundamental to the delivery of the strategic plan and therefore applicable to most of the risks within the strategic risk register.

**Link to risk number on strategic or operational risk register:** Risk numbers 1 to 10 of the strategic risk register.

**How might the content of this report impact or mitigate the known risks:**

Risk is inherent in all business operations. Management implement controls to mitigate identified risks and it is the role of Internal Audit to periodically review the systems of internal control to provide assurance to those charged with governance regarding their adequacy. The Internal Audit plan is developed on a risk basis, the detail of which was agreed by Aberdeen City Council's Audit, Risk and Scrutiny Committee.

### 5: Recommendations

It is recommended that the Committee:

1. Note the Internal Financial Control Statement for 2016/17;
2. Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;



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3. Note that there has been limitation to the scope of Internal Audit work during 2016/17; and
4. Note that no self-assessment has been undertaken as required by the Public Sector Internal Audit Standards as an external assessment is being completed by KPMG which will be reported to Aberdeen City Council's Audit, Risk and Scrutiny Committee.



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### APPENDIX A

Service	Audit Topic	Position
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#### 2016/17 Audit Work

Integration Joint Board	Health and Social Care Partnership – Post Integration Review	Draft report issued May 2017
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#### 2015/16 Audit Work completed in 2016/17

Aberdeen City Council	Self-Directed Support	Complete October 2016
Adult Social Work	Social Work Tendering Procedures	Complete April 2016

#### 2016/17 Audit Plan

Aberdeen City Council	Purchasing and Creditors Procedures	Complete November 2016
Adult Social Work	CareFirst System	Complete November 2016

NHS Grampian	Family Health Services	Final report being discussed by Chief Officers
	Health and Social Care Integration	Currently in draft form



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### **Appendix B**

#### **Internal Audit Statement relating to Aberdeen City Integration Joint Board's Internal Control System for the year ended 31 March 2017**

As Chief Internal Auditor of Aberdeen City Integration Joint Board, I am pleased to present my annual statement on the adequacy and effectiveness of the internal control system of the Council for the year ended 31 March 2017. The purpose of this statement is to assist the Chief Financial Officer in forming his opinion in relation to the annual Governance Statement to be included in the Annual Accounts.

#### **Opinion**

It is my opinion, based on the following, that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2017.

However, some concerns have been identified throughout the year. Recommendations graded as "major" were made in an Aberdeen City Council Internal Audit report in 2016/17 relating to Adult Social Work Purchasing and Creditors Procedures. Recommendations made regarding the issues identified were either agreed by management or the Aberdeen City Council Audit, Risk and Scrutiny sought, and were satisfied with, management assurances at Committee.

In addition, there were limitations to the scope of planned Internal Audit work in relation to Aberdeen City Council. These limitations related to not being permitted access to records held within the Care First system (with data being provided to Internal Audit by officers) and impacted on audits of Self-Directed Support and the Care First System

Whilst the above issues occurred, areas of good practice, improvement, and procedural compliance were also identified and these have been detailed in individual assignment reports.

#### **Basis of Opinion**

My evaluation of the control environment is informed by a number of sources:

- The audit work completed by Internal Audit during the year to 31 March 2017 in relation to the Integration Joint Board and relevant areas within Aberdeen City Council;



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- Progress made with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Board's external auditors;
- Internal Audit's knowledge of the Board's and Aberdeen City Council's governance, risk management and performance monitoring arrangements.
- Consideration will be given to the contents of NHS Grampian's Internal Audit annual report when available.

### **Respective responsibilities of management and internal auditors in relation to internal control**

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

### **Sound internal controls**

The main objectives of the Board's internal control systems are to:

- ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- safeguard assets;
- ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Board is continually seeking to improve the effectiveness of its systems of internal control.

### **The Work of Internal Audit**

Internal Audit is an independent appraisal function established by the Board for the review of the internal control system as a service to the organisation. It



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objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

The section undertakes an annual programme of work agreed with Chief Officers and the Audit and Performance Systems Committee. The audit plan is based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes.

All Internal Audit reports identifying system weaknesses, non-compliance with expected controls, and / or assurance of satisfactory operation are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The Internal Auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action.

**David Hughes,**  
**Chief Internal Auditor,**  
**Aberdeen City Integration Joint Board**  
**21 April 2017**