

Governance, Risk and Best Value Committee

10:00am, Tuesday, 19 March 2019

Internal Audit Annual Plan 2019/20 – referral from the Edinburgh Integration Joint Board Audit and Risk Committee

| | |
|---------------------|-----|
| Item number | 7.5 |
| Executive/routine | |
| Wards | |
| Council Commitments | |

1. For Decision/Action

- 1.1 The Governance, Risk and Best Value Committee is requested to note the draft 2019/20 Edinburgh Integration Joint Board (EIJB) Internal Audit plan and supporting risk assessment for information.

Laurence Rockey

Head of Strategy and Communications

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Referral Report

Internal Audit Annual Plan 2019/20 – referral from the Edinburgh Integration Joint Board Audit and Risk Committee

2. Terms of Referral

- 2.1 On 8 March 2019, the Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee considered the draft EIJB Internal Audit plan and supporting risk assessment for the period 1 April 2019 to 31 March 2020.
- 2.2 The EIJB Audit and Risk Committee agreed:
 - 2.2.1 To approve the draft 2019/20 Internal Audit plan and supporting risk assessment.
 - 2.2.2 To refer the approved EIJB Internal Audit plan to both the Council's Governance, Risk and Best Value Committee, and the NHS Lothian Audit and Risk Committee for information.

3. Background Reading/ External References

None.

4. Appendices

Draft Edinburgh Integration Joint Board Internal Audit Charter 2019/20 – report by the Chief Internal Auditor

Report

Internal Audit Annual Plan 2019/20

IJB Audit and Risk Committee

8 March 2019



Executive Summary

1. The purpose of this paper is to present the draft Edinburgh Integration Joint Board (EIJB) Internal Audit (IA) plan and supporting risk assessment for the period 1 April 2019 to 31 March 2020 (the 2019/20 plan) to the Audit and Risk Committee for approval.
2. It is IA's opinion that the four reviews included in the draft plan will provide the appropriate level of assurance on the control frameworks designed to manage the EIJB's most significant risks and that the plan can be delivered by Internal Audit resources currently available from the EIJB's two partners, the City of Edinburgh Council (the Council) and NHS Lothian (NHSL).
3. Reliance will be placed on relevant assurance reviews performed by the Council and NHSL IA teams in the respective partner organisations and referred to the EIJB Audit and Risk Committee to support the 2019/20 Internal Audit Annual Opinion. No reliance will be placed on assurance provided by any other second and third line of defence assurance providers.
4. The audit plan is risk based and is derived from the EIJB's draft risk register (as at December 2018) which identifies the key areas of risk.
5. Internal Audit plans for the Council and NHSL will also be provided to Committee (once approved by the Council's Governance, Risk, and Best Value Committee, and the NHSL Audit and Risk Committee) to enable Committee to identify audits that will be of interest to the EIJB, and request their referral following scrutiny by the relevant partner governance forums.

Recommendations

6. The Audit and Risk Committee is requested to:
 - i. Review and approve the draft 2019/20 Internal Audit plan and supporting risk assessment;
 - ii. Refer the approved EIJB IA plan to both the Council's Governance, Risk and Best Value Committee, and the NHS Lothian Audit and Risk Committee for information.

Background

7. The IA plan is driven by Public Sector Internal Audit Standards (PSIAS) requirements; the EIJB's organisational objectives and priorities; and an assessment of the risks that could prevent the EIJB from meeting those objectives.
8. The plan is risk based and focuses on the governance, risk, and controls within the EIJB. The outcomes of the audits included in the plan will support the 2019/20 EIJB Internal Audit annual opinion, and also inform the annual Governance Statement in the financial statements
9. The plan is based on the draft risk register that was presented at the EIJB Audit and Risk Committee in December 2018; engagement with Health and Social Care Senior Management; and EIJB Audit and Risk Committee Elected Members.
10. The approach applied in developing the plan considered the outcomes of work performed across the EIJB by other second and third lines of defence assurance providers, and the extent to which reliance can be placed upon them.
11. Adequacy and capability of IA resources has also been reviewed to confirm that sufficient resources, skills, and capability are available within the Council and NHSL to support delivery of the plan.

Main report

12. The Audit and Risk Committee's remit includes ensuring internal audit work is properly planned with due regard to risk, materiality and coverage, and agreeing annual IA plans
13. The draft plan was developed using the EIJB's risk register to identify the most significant areas of inherent risk; whether these risks could be audited; if so,

whether there is sufficient assurance available from other second and third line of defence sources.

14. The plan includes four IA reviews to be completed by the EIJB's partners, the Council and NHSL. The Council will perform three reviews, and NHSL one.
15. The four audits included in the plan and follow up on findings raised in previously completed audits will provide sufficient assurance over all of the EIJB's auditable 'Very High' and 'High' rated risks, where no other assurance is provided.
16. One Medium rated risk in relation to insufficient or poor-quality assurance from assurance providers to support effective delivery of the EIJB's scrutiny responsibilities is not covered by the draft plan as this is not considered auditable.
17. The full plan for the period is attached at Appendix 1: Draft Internal Audit Annual Plan 2019/20.

Key risks

18. The IA plan is not sufficiently comprehensive to provide the level of assurance that the Integration Board requires in all the areas that it needs.
19. That IA cannot obtain the necessary access to the records; assets; physical; properties; and personnel of the EIJB's partner organisations (the Council and NHSL) to enable delivery of the EIJB annual plan and annual opinion.

Financial implications

20. Any requirement to increase assurance provision as a result of new and emerging risks may also result in the need to fund additional IA resource.

Implications for Directions

21. There are no specific implications for directions arising from this report.

Equalities implications

22. There are no equalities impacts.

Sustainability implications

23. No direct sustainability implications.

Involving people

24. The IA plan is based in the EIJB's risk register. In preparing both the risk register, and annual plan, the EIJB's Risk and IA teams consulted widely with senior management from the Integration Joint Board; the Council; and NHSL.

Impact on plans of other parties

25. The four IA reviews currently expected to be undertaken by the Integration Joint Board's partners IA functions (three by the City of Edinburgh Council & one by NHS Lothian), have been incorporated into the internal audit plans of those organisations.
26. Delivery of the EIJB IA plan is likely to involve input from the partner organisations that provide support to the EIJB (the Council and NHSL) under the terms of the EIJB Scheme of Integration.
27. The EIJB Internal Audit Charter notes in the section on 'Authority' that IA is authorised by the EIJB Audit and Risk Committee to have full, free, and unrestricted access to any and all of the EIJB's records, assets, physical properties, and personnel, and those of its partners, the Council and NHSL.
28. The EIJB IA charter has also been referred to both the Council's Governance, Risk and Best Value Committee, and the NHS Lothian Audit and Risk Committee, with a request for their formal confirmation that they will support delivery of the 2019/29 EIJB IA annual plan in line with the approach outlined in the charter.

Background reading/references

None

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Appendices

Appendix 1

Draft EIJB Internal Audit Plan 2019/20



The Edinburgh Integration Joint Board

Internal Audit Annual Plan 2019/20

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1. Introduction and Approach

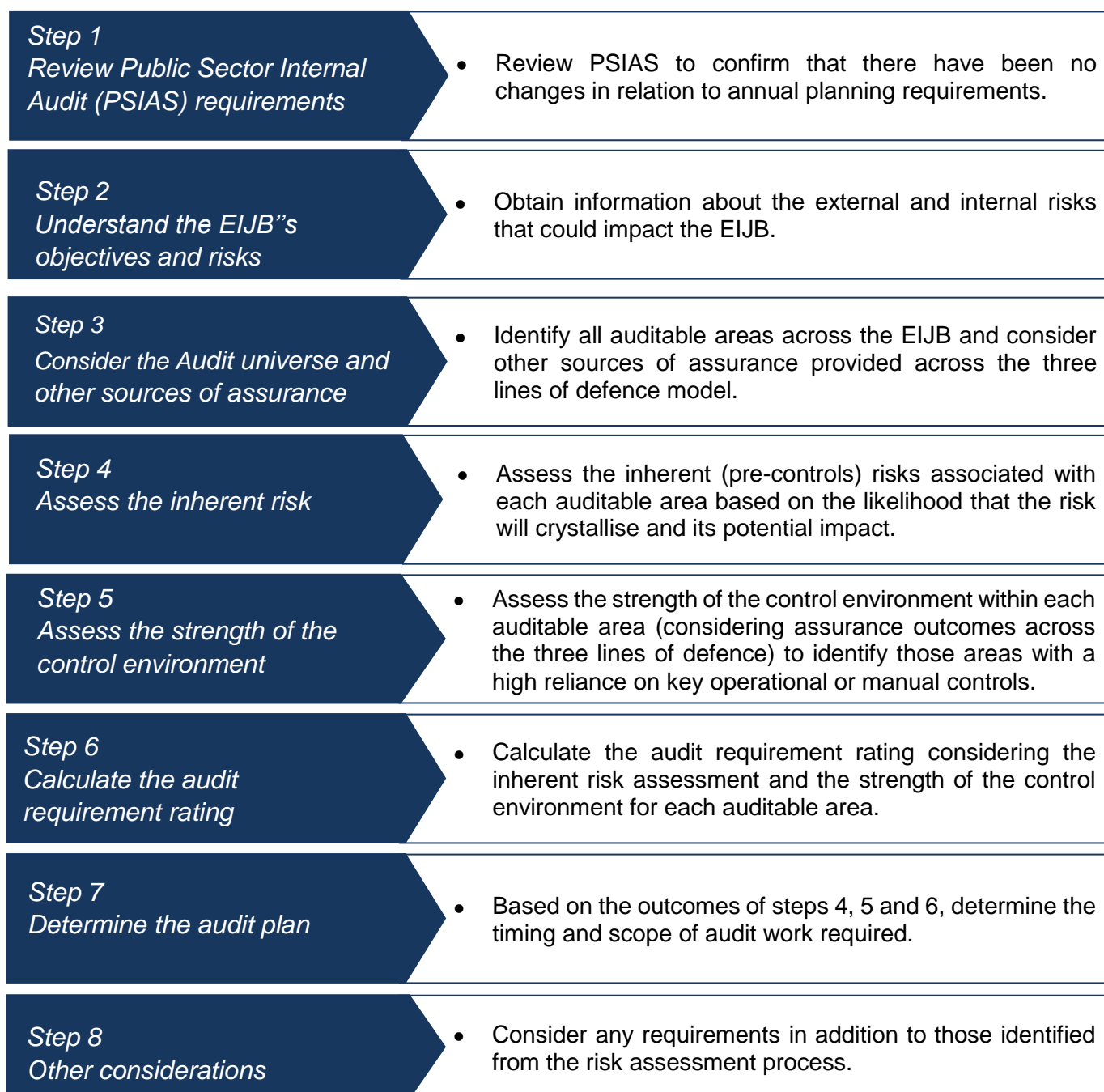
1.1 Introduction

This document sets out the scope of the draft Internal Audit (IA) 2018/19 annual plan and supporting risk assessment for The Edinburgh Integration Joint Board (the EIJB). The objective of the plan is to deliver assurance on the design adequacy and operating effectiveness of the key controls established to mitigate the EIJB's most significant risks.

1.2 Approach

A summary of the approach applied when assessing the EIJB's key risks and preparing the annual plan is set out below in Figure 1. The IA plan is driven by Public Sector Internal Audit Requirements (PSIAS); the EIJB's organisational objectives and priorities; and an assessment of the risks that could prevent the EIJB from meeting those objectives.

Figure 1: Approach applied in developing the 2018/19 IA Annual Plan



1.3 Public Sector Internal Audit Standards Requirements – Step 1

The draft IA plan has been developed based on the requirements of the Public Sector Internal Audit Standards (PSIAS) which specify that:

- the Chief Internal Auditor (CIA) must develop a risk based plan that is consistent with the organisation's goals, and determines the priority of IA activity;
- the plan must be based on a documented risk assessment, undertaken at least annually, with input from senior management and the board;
- the CIA must consult with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, and associated risks and risk management processes;
- the plan must consider the requirement to produce an annual internal audit opinion;
- the plan must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to organisational objectives and priorities;
- the CIA must communicate the internal audit activities, plans, and resource requirements, including significant interim changes, to senior management and the board for review and approval;
- the CIA must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan;
- the plan must explain how internal audit's resource requirements have been assessed. Where the CIA believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board; and
- the CIA must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

1.4 Understand the EIJB's Objectives and Risks – Step 2

The annual Internal Audit Plan is based on an annual assessment of the EIJB's key risks and operations (the audit universe). The outcomes of the risk assessment process are included at Section 2.

The risk assessment process involved review of the EIJB current risk register (the draft version presented to the Audit and Risk Committee in June 2018), and discussions with the Health and Social Care Partnership senior management team, and External Audit (Scott Moncrieff).

1.5 The Audit Universe and other assurance providers – Step 3

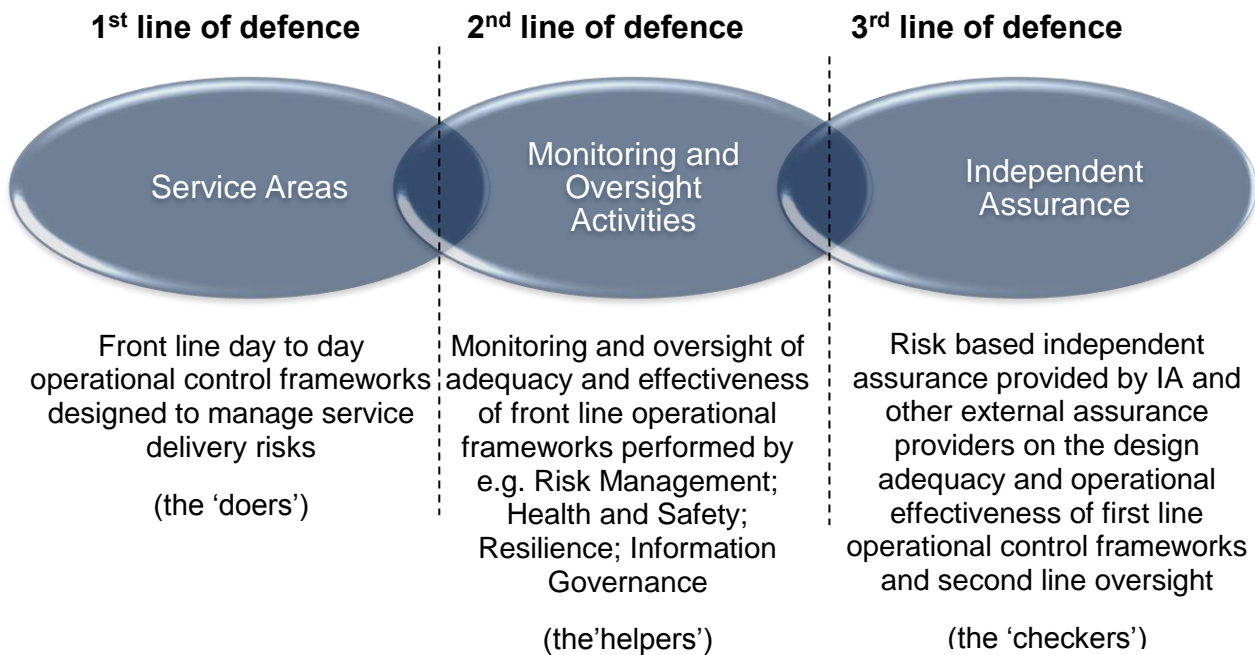
1.5.1 The Audit Universe

The EIJB's audit universe is essentially its entire organisational structure.

1.5.2 The Three Lines of Defence Model

The approach applied in developing the plan also considers Internal Audit's role as one of the Council's 3rd line of defence independent assurance providers. The diagram below outlines the three lines of defence assurance model.

Figure 2: The Three Lines of Defence Model



1.5.3 Other Assurance Providers

In developing our internal audit risk assessment, we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon them. A summary of other sources is detailed below:

- The results of audit work performed by the Council and NHS Lothian (NHSL) Internal Audit teams;
- External inspections such as those undertaken by the Care Inspectorate and Audit Scotland;
- External audit undertaken by Scott Moncrieff; and
- Information Commissioner Reviews and inspections.

We intend to place reliance upon the activities of the City of Edinburgh Council and the NHS Lothian Internal Audit teams as we have sufficient visibility over their internal processes and procedures (including quality procedures) to be able to conclude that the audits that they undertake are prepared to a standard that is consistent with the requirements of the PSIAS.

Although we have no concerns over the other potential sources of assurance noted above, we note that these organisations are not seeking to conduct their activities in a manner that is compliant with the PSIAS. We do not have sufficient visibility (and it is not practical to gain such visibility) over their relevant internal processes to be able to draw a conclusion as to whether reliance can be placed upon their activities for the purposes of developing our EIJB Internal Audit annual opinion for 2018/19.

2. Risk Assessment – Steps 4 - 6

The annual plan is based on the EIJB risk register was presented at the December 2018 Audit and Risk Committee, where it was acknowledged that further work is required to define controls and assess the rating of residual (post control) risks.

Each inherent (pre controls) risk has been reviewed to assess whether it can be audited; whether assurance is available from other assurance providers; and whether IA assurance is required for 2019/20. The outcomes of this assessment are detailed below:

2.1 EIJB Risk Register – December 2018

| Risk | | Inherent Risk Rating | Auditable Risk | Other Assurance Source | Assurance required for 2019/20 | Review Planned for 2019/20 |
|---|--|----------------------|----------------|------------------------|--------------------------------|-----------------------------|
| Strategic planning and commissioning | | | | | | |
| 1 | There is a risk that the IJB fails to deliver its strategic objectives because the Council and/or NHS Lothian do not delegate sufficient resource – leading to a requirement to revise the strategic plan. | High | Yes | No | Yes | Yes Follow-up |
| 2 | There is a risk that the IJB has limited ability to influence the decision making over set aside and hosted services which are not managed and delivered by the Partnership because of conflicting requirements – leading to the IJB's inability to drive strategy to help meet its objectives/outcomes. | High | Yes | No | Yes | Yes Follow-up |
| 3 | There is a risk that the IJB will not achieve its strategic objectives and/or financial targets because delegated services are not delivered by Council and NHS Lothian within available budgets – leading to a requirement to revise the strategic plan. | Very High | Yes | No | Yes | Yes Follow-up |
| 4 | There is a risk that the IJB has insufficient asset planning arrangements because of a lack of a capital plan – leading to failure or delays in delivering the strategic plan. | High | Yes | No | Yes | Yes Audit 4 |
| Issuing of Directions | | | | | | |
| 5 | There is a risk that NHS Lothian and the Council do not deliver directions because they are not: <ul style="list-style-type: none"> • well-articulated • properly understood • realistic/achievable • performance targets are not SMART | High | Yes | No | Yes | Yes Audit 1 Follow-up |

| Risk | | Inherent Risk Rating | Auditable Risk | Other Assurance Source | Assurance required for 2018/19 | Review Planned for 2017/18 |
|---------------------------------------|--|----------------------|----------------|------------------------|--------------------------------|----------------------------|
| 6 | There is a risk that the IJB directions are not delivered because of the lack of a workforce strategy - leading to a mismatch between workforce requirements and availability. | High | Yes | No | Yes | Yes Audit 4 |
| Management and role of the IJB | | | | | | |
| 7 | There is a risk that the IJB does not operate effectively as a separate entity because: <ul style="list-style-type: none"> there is a lack of clarity about the separate roles of the IJB, HSCP, Council and NHS Lothian; and/or members lack the necessary skills, knowledge and experience to undertake their role. leading to a failure to deliver the principles of integration. | High | Yes | No | Yes | Yes Follow-up |
| 8 | There is a risk that the IJB does not make best use of the expertise, experience and creativity engage and collaborate appropriately - leading to a negative impact on the delivery of the third, independent and housing sectors, and other partners as a result of failing to strategic outcomes and poor relationships. | High | Yes | No | Yes | Yes Follow-up |
| 9 | There is a risk that the IJB lacks the infrastructure to operate effectively because of a failure by NHS Lothian and the Council to meet their obligations under the integration scheme to provide adequate professional, administrative and technical support – leading to failures in governance, scrutiny and performance arrangements. | High | Yes | No | Yes | Yes Follow-up |
| 10 | There is a risk that the IJB receives insufficient or poor-quality assurance from assurance providers to support effective delivery of their scrutiny responsibilities.. | Medium | No | No | No | No |

3. Annual Internal Audit plan – Step 7

3.1 Internal Audit Resources

The EIJB is reliant upon its two partners (the Council and NHSL) for provision of IA services. A formal secondment arrangement has been established between the Council and the EIJB for provision of three audits each year (a total of 75 audit days) and fulfilment of the role of Chief Internal Auditor. NHSL has also confirmed that they will deliver one audit in the 2019/20 plan year for the EIJB.

The current level of available IA resources from the Council and NHS Lothian will provide the appropriate level of assurance on the control frameworks designed to manage the EIJB's most significant risks.

3.2 Annual plan and indicative timeline

This capacity will enable provision of assurance on all of the 'Very High and 'High' rated EIJB auditable risks where other assurance is not provided.

One 'Medium' rated risk (risk 10 – risk of insufficient or poor quality assurance from assurance providers) will not be covered as this is not considered auditable.

The draft 2019/20 IA plan is detailed below. Each proposed review has been cross referenced to the corresponding Risk Register risks, and includes indicative timeframes.

| Description | | Internal Audit Team | Q1 | Q2 | Q3 | Q4 | Link to Inherent Risk |
|-------------|--|---------------------|----|----|----|----|-----------------------|
| 1 | <u>Directions setting framework</u> Review will assess the design adequacy and control effectiveness of the framework applied to identify; create; approve; and communicate new and changes to existing directions to the Health and Social Care Partnership. | NHS | | ✓ | | | 5 (High) |
| 2 | <u>Progress towards addressing integration recommendations from external bodies</u> Review will assess how the EIJB has responded to the recommendations on integration made by the Accounts Commission (November 2018); the Royal College of Physicians Edinburgh (December 2018); and the Review Leadership Group (February 2019), and incorporated these recommendations into the strategic planning and directions setting process. | CEC | | | ✓ | | 8 (High) |
| 3 | <u>Transformation Framework</u> Review will assess the design adequacy and operating effectiveness of the framework established to support transformation and delivery of savings. | CEC | | | ✓ | | 3 (Very High) |

| Description | | Internal Audit Team | Q1 | Q2 | Q3 | Q4 | Link to Inherent Risk |
|---|--|---------------------|----|----|-----------------------|----|-----------------------|
| 4 | <u>Strategic planning - capital and workforce planning</u> Review will assess the design adequacy and operating effectiveness of the EIJB's capital and workforce planning to support strategic delivery. | NHS | | | | ✓ | 4 and 6 (both High) |
| Internal Audit Follow-Up of EIJB completed reviews | | | | | Risk Reference | | |
| 2015/16 - Self Directed Support – option 3 | | | | | N/A | | |
| 2016/17 - Social Work – pre employment verification | | | | | 6 (High) | | |
| 2016/17 - Data Integration and Sharing | | | | | 9 (High) | | |
| 2017/18 - Health and Social Care Purchasing Budget Management | | | | | 3 (Very High) | | |
| 2017/18 - EIJB Performance Target Data | | | | | 5 (High) | | |
| 2017/18 - Review of Social Care Commissioning | | | | | 1 and 2 (both High) | | |
| 2018/19 – Historic Reopened Findings (4 in total) | | | | | N/A | | |
| 2018/19 - Partnership Infrastructure and Support – Integration Scheme | | | | | 1 and 9 (both High) | | |
| 2018/19 - Governance Structures | | | | | 7 (High) | | |
| 2018/19 - Strategic Planning | | | | | 2; 4; 6; 8 (all High) | | |
| 2018/19 - Financial and Budget Management | | | | | 3 (very High) | | |

3.3 Basis of our annual Internal Audit opinion

In developing the annual plan, we have considered the PSIAS requirement to produce an annual Internal Audit Opinion by determining the necessary level of internal audit coverage required to provide assurance over the EIJB's audit universe and key risks.

Our annual Internal Audit Opinion will be based on and limited to the outcomes from internal audits completed during the year; the reported overdue IA recommendations position as at 31 March 2020; and any audits referred to the EIJB Audit and Risk Committee by the Council and NHSL. No reliance will be placed on assurance provided by any other parties.

Internal audit work supporting the annual Opinion will be performed in accordance with our IA methodology which is aligned to PSIAS requirements. Consequently, our work and deliverables are not designed or intended to comply with any other auditing standards.

3.4 Other Considerations

There were no other considerations that require to be reflected in the 2019/20 Internal Audit annual plan.

Appendix 1: Inherent Risk Assessment Process

The internal audit plan is based on the draft risk register presented to the EIJB Audit and Risk Committee in December 2018. The inherent (pre controls) risk rating for each risk considers the impact of the risk should it crystallise, and the likelihood that it will crystallise, and is assessed using the table below:

| Likelihood | Consequence | | | | |
|----------------|-------------|-----|-----|-----|-----|
| | Neg | Min | Mod | Maj | Ext |
| Almost Certain | M | H | H | VH | VH |
| Likely | M | M | H | H | VH |
| Possible | L | M | M | H | H |
| Unlikely | L | M | M | M | H |
| Rare | L | L | L | M | M |