

Audit Committee Annual Report to the Board

Report to: Board
Date: 28 September 2017
Report by: Mike Cairns, Convener of the Audit Committee
Report No: B-19-2017
Agenda Item: 13.3

PURPOSE OF REPORT

This report represents a summary of the work of the Audit Committee, gives the Committee's opinion on the assurance that this work provides and recommends that the Board approves the Annual Report and Accounts.

RECOMMENDATIONS

That the Board:

1. Notes the work of the Audit Committee.
2. Notes the Committee's assessment of its performance and the plans to address development areas.
3. Agrees that it is appropriate for the Chief Executive to sign the Annual Report and Accounts at all of the appropriate points within the document.
4. Approves the 2016/17 Annual Report and Accounts.

Agenda Item 13.3

Report Number:
B-19-2017

Version Control and Consultation Recording Form

Version	Consultation	Manager	Brief Description of Changes	Date
1.0	Senior Management			
	Legal Services			
	Resources Directorate			
2.0 3.0	Committee Consultation (where appropriate)	Audit Committee	Minor changes to adjust the tense in section 3, reflecting retrospective period of report. Completion of section 7.0 to report Committee's view on the quality of the Internal Audit service.	
	Partnership Forum Consultation (where appropriate)			

Equality Impact Assessment

Confirm that Involvement and Equalities Team have been informed	YES <input type="checkbox"/>	NO <input type="checkbox"/>
EIA Carried Out	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
If yes, please attach the accompanying EIA and appendix and briefly outline the equality and diversity implications of this policy.		
If no, you are confirming that this report has been classified as an operational report and not a new policy or change to an existing policy (guidance, practice or procedure)	Name: Kenny Dick Position: Head of Finance & Corporate Governance	
Authorised by Director	Name: G Weir	Date: 21/9/17

1.0 INTRODUCTION

Version: 2.0	Status: <i>Final</i>	Date: 13/09/17
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The Audit Committee Annual Report to the Board summarises the work of the Audit Committee for the past financial year and presents the Committee's opinion on the assurance that this work provides. The report also contains the Audit Committee's recommendation to the Board on the approval of the Annual Report and Accounts.

2.0 REMIT OF THE AUDIT COMMITTEE

The purpose of the Audit Committee is to take an overview of the financial reporting arrangements of the Care Inspectorate, the external and internal audit arrangements and also to ensure that there is a sufficient and systematic review of the internal control arrangements of the organisation, including arrangements for risk management and business continuity planning.

The Audit Committee is also responsible for providing advice to the Board on the development of Performance Reporting Measures to underpin the Corporate Plan.

3.0 SUMMARY OF AUDIT COMMITTEE WORK

3.1 Internal Audit Reports Considered

Scott Moncrieff, the Internal Auditors, use a system for categorizing assurance levels where each control objective is assessed and categorized using a colour coded approach. The colour code system is as follows:

BLACK - Fundamental absence or failure of key control procedures – immediate action required.

RED - The control procedures in place are not effective – inadequate management of key risks.

YELLOW - No major weaknesses in control but scope for improvement.

GREEN - Adequate and effective controls which are operating satisfactorily.

All internal audit reports were submitted to Committee in line with the Internal Audit Plan. The Workforce Planning Audit performed in the final quarter of the year was submitted to the Audit Committee meeting of 25 May 2017 in accordance with the plan. The Information Governance Audit was deferred due to a separate review being arranged.

The following reports were submitted to and considered by the Committee:

Version: 2.0	Status: <i>Final</i>	Date: 13/09/17
--------------	----------------------	----------------

Agenda Item 13.3

Report Number:
B-19-2017

Audit Plan Year	Report	Committee Date	Control Objective Assurance Level
2016/17	Procurement	16/09/16	2 yellow 4 green
2016/17	Absence management	16/09/16	1 yellow 2 green
2016/17	Review of Best Value arrangements	18/11/16	2 yellow 3 green
2016/17	Duty of User Focus	18/11/16	4 green
2016/17	Duty of co-operation	10/03/17	2 yellow 3 green
2016/17	Financial systems	10/03/17	10 green

3.2 Consideration of the Care Inspectorate's 2015/16 Annual Report and Accounts

The Committee held a meeting on 19 August 2016 dedicated to a detailed review of the draft Annual Report and Accounts. At the meeting of 16 September 2016, the Committee considered the draft Annual Report and Accounts for 2015/16 and the associated report from Audit Scotland and recommended that the Board approve the 2015/16 Annual Report and Accounts.

The Committee reviewed the Governance Statement which is included within the Annual Report and Accounts.

3.3 Review of Audit Plans

The Committee reviewed and approved the Strategic Internal Audit Plan and associated assignment plans for 2016/17 and monitored progress against this plan throughout the year.

The Internal Audit Plan 2017/18 was considered at the Audit Committee meeting of 10 March 2017. This document set out the Strategic Internal Audit Plan 2016-19 which included the internal audit programme for 2017/18. The review of annual and strategic audit plans strives to ensure a strong relationship between the planned internal audits, the strategic risk register and the Care Inspectorate's duty to provide Best Value. The final versions of these plans along with 2017/18 individual audit assignment plans are to be approved early in the 2017/18 financial year. The Committee received the External Audit Plan for 2016/17 from the new external auditors, Grant Thornton.

3.4 Implementation of Audit Recommendations

Throughout the year the Committee monitored management's progress towards implementing audit recommendations. This is achieved by reviewing

Version: 2.0	Status: <i>Final</i>	Date: 13/09/17
--------------	----------------------	----------------

recommendation follow up reports prepared by the internal auditors summarising progress on completed actions at each quarterly Audit Committee meeting. The internal auditors' follow up review concluded that of the 19 actions due to be implemented by 31 March 2017, 10 (53%) were fully implemented and 9 (47%) were partially completed. Committee were informed of progress to date and reasons for revised completion dates for all of the partially completed recommendations. The Committee noted there were no high risk recommendations outstanding.

3.5 Other Work

Review of Prevention of Fraud Policy and Response Plan

The Care Inspectorate's prevention of fraud and bribery policies were reviewed and agreed by the Audit Committee on 10 March 2017 and the Committee agreed that the policies remains in place to allow a substantial review and the development of a Counter Fraud and Corruption Framework. The revised documents were considered by the Committee in May 2017.

Annual Review of Risk and Risk Management

In May 2016 the Committee reviewed the 2016/17 draft strategic Risk Register and approved it for onward submission to the Board.

The Committee arranged a strategic risk review session open to all Board Members on 3 February 2017. The output from this session will contribute to a draft revised Strategic Risk Register which the Committee will consider at its meeting of 25 May 2017. Identified strategic risks are used to inform the Strategic and Annual Internal Audit Plans.

The Committee considered a revised risk policy and template and proposed a number of amendments. The revised documents were considered by the Committee in May 2017.

Performance Framework

The Committee considered performance reporting reports on proposed new Care Inspectorate success measures. The Committee commented on and approved the proposed set of new Key Performance Indicators and Monitoring Measures for onward consideration by the Board in September 2016.

Corporate Governance Review Group

The Committee noted that the member / officer Corporate Governance Review Group met in May 2016 to consider the corporate governance statement for the annual report and accounts. The Committee also noted that the action plan was progressing well.

Version: 2.0	Status: <i>Final</i>	Date: 13/09/17
--------------	----------------------	----------------

Horizon Scanning

This is a standing item on Audit Committee agenda intended to allow time to consider internal or external developments which may require specific consideration at a future Audit Committee meeting and to consider relevant Audit Scotland reports. The committee recommended that CIPFA publications be monitored as part of the horizon scanning work.

National Fraud Initiative

The Committee agreed the management response to the Audit Scotland NFI Report self-appraisal checklist and resulting actions.

3.6 Priorities for 2017/18

Risk Management

The regular review and update of the risk register is a task of significant importance. In addition, the Committee is encouraging the development and enhancement of risk management. This includes developing the use risk appetite and Risk Tolerance Statements to better inform operational management decisions, to better incorporate the concept of risk velocity and to develop the assurance framework to better embed risk management throughout the Care Inspectorate.

Strategic Performance Management Framework

The Committee will review and oversee the development of the Strategic Performance Management Framework.

Board Members Development Session on the Annual Report and Accounts

All Board members are to be invited to a development session on the Annual Report and Accounts. This session will allow sufficient time for more detailed consideration and explanation of the information contained within the Annual Report and Accounts.

Information Governance/General Data Protection Regulations (GDPR)

This Committee will monitor the progress on the implementation of the recommendations arising from the independent review of information governance. This includes preparing for the implementation of the General Data Protection Regulations (GDPR) which will come into force on 25 May 2018. This legislation will mean significant changes to the responsibilities of organisations regarding data.

Counter Fraud and Corruption Framework

The Committee will consider a new Counter Fraud and Corruption Framework that is to be aligned to the CIPFA Code of Practice on managing the risk of fraud and corruption.

Version: 2.0	Status: <i>Final</i>	Date: 13/09/17
--------------	----------------------	----------------

Digital Transformation

The Committee will consider and monitor risk associated with the digital transformation programme.

4.0 PROGRAMME OF COMMITTEE MEETINGS

4.1

2017/18	
Meeting Date	Business
25 May 2017	<p>Internal Audit:</p> <ul style="list-style-type: none"> • Recommendations Follow up Report • Internal Audit Annual Report 2016/17 • Strategic Internal Audit Plan 2016-19 and Final Annual Internal Audit Plan 2017/18 • Review of Individual Internal Audit Assignment Plans 2017/18 • B5. Workforce Planning Audit Report <p>Care Inspectorate:</p> <ul style="list-style-type: none"> • Draft Audit Committee Annual Report to Board 2016/17 • Counter Fraud and Corruption Framework • Strategic Risk Register 2017/18 (including review) • Risk Policy
17 August 2017	<p>External Audit:</p> <ul style="list-style-type: none"> • Annual Report and Accounts statutory audit progress <p>Care Inspectorate:</p> <ul style="list-style-type: none"> • Draft Audit Committee Annual Report to Board 2016/17 • Draft Annual Report and Accounts
21 Sept 2017	<p>Internal Audit:</p> <ul style="list-style-type: none"> • Internal Audit Plan 2017/18 Progress Report • Recommendations Follow up Report • Internal Audit Reports • Internal Audit private meeting with Audit Committee <p>External Audit:</p> <ul style="list-style-type: none"> • Report to those charged with governance on the 2016/17 audit <p>Care Inspectorate</p> <ul style="list-style-type: none"> • Draft Annual Report and Accounts 2016/17 • Draft Audit Committee Annual Report to Board 2016/17

Agenda Item 13.3

Report Number:
B-19-2017

16 Nov 2017	<p>Internal Audit:</p> <ul style="list-style-type: none">• Internal Audit Plan 2017/18 Progress Report• Recommendations Follow up Report• Internal Audit Reports <p>External Audit:</p> <ul style="list-style-type: none">• Progress update• Private Meeting with External Auditors
8 Feb 2018	<p>Care Inspectorate:</p> <ul style="list-style-type: none">• Performance Management Framework for 2018/19• Audit Committee Effectiveness Session
8 March 2018	<p>Internal Audit:</p> <ul style="list-style-type: none">• Review of Strategic Internal Audit Plan 2016-19 & Draft Internal Audit Plan 2018-19• Internal Audit Plan 2017-18 Progress Report• Internal Audit Follow-up Report• Internal Audit Reports <p>External Audit:</p> <ul style="list-style-type: none">• Annual Audit Plan 2017/18 <p>Care Inspectorate:</p> <ul style="list-style-type: none">• Annual review of the Counter-fraud and Corruption Strategy• Update of Strategic Risk Register

All Audit Committee agendas contain the following standing items:

- Horizon Scanning
- Risk Identification
- Schedule of Committee Business

5.0 FRAUD

5.1 The Committee received assurance at its meeting of 25 May 2017 that there had been no incidences of fraud detected during financial year 2016/17.

6.0 AUDIT COMMITTEE EFFECTIVENESS

6.1 The Committee has reviewed the way in which it operates and has made the assessment that it operates effectively. This conclusion was reached using national guidance on effective audit committees and an internal review framework which is consistently applied to all Care Inspectorate committees.

Version: 2.0	Status: <i>Final</i>	Date: 13/09/17
--------------	----------------------	----------------

6.2 The Committee believes it has particular strengths in the following areas:

- The Audit Committee constructively challenges assurance providers about the scope of their activity, their evidence and conclusions.
- The Audit Committee has a good balance of members with the appropriate type and level of experience. Co-option of Committee members with particular specialist expertise would be considered where necessary or relevant.
- The planning of internal audit work is effective with good links between identified strategic risks and the audits planned over a rolling 3 year period. There is sufficient flexibility to respond effectively to emerging issues.
- The Audit Committee is clear about the Board's expectations of it.

6.3 The Committee has identified the following areas that would benefit from further development:

- Gaining added value from the internal auditors
- Delegating the responsibility for addressing specific risks to appropriate Committees

7.0 QUALITY OF INTERNAL AUDIT

The Committee has assessed the work of Scott-Moncrieff, the appointed internal auditors for 2016/17. The Committee is of the view that there is room for improvement on the evaluative type internal audit assignments. It has been agreed that more time will be allocated to these types of assignments to allow a more in-depth exploration of the issues. The Committee are fully satisfied with the audit work carried out on financial transaction activities. The Committee also recognised the increasing complexity of some of the internal audits and were content the more in-depth approach would be a positive change.

8.0 QUALITY OF EXTERNAL AUDIT

The Care Inspectorate's external auditors, Grant Thornton, are appointed by the Auditor General for Scotland. The audit of the 2016/17 Annual Report and Accounts will be the first year of Grant Thornton's engagement.

External audit provide an audit plan, attend Audit Committee meetings and provide an informative report on their work. The Committee believes a good working relationship is developing between the Grant Thornton audit team, Care Inspectorate staff and the Audit Committee.

Version: 2.0	Status: <i>Final</i>	Date: 13/09/17
--------------	----------------------	----------------

9.0 GOVERNANCE STATEMENT

The Committee has reviewed the Governance Statement contained within the Annual Report and Accounts. The Committee is of the opinion that the Statement fairly reflects the adequacy and effectiveness of the Care Inspectorate's governance and risk framework for the year ended 31 March 2017 and up to the date of approval of the Annual Report and Accounts.

The statement addresses all issues that the Committee considers to be pertinent.

The Committee advises the Board and Accountable Officer that in its opinion it is appropriate for the Accountable Officer to sign the Statement.

10.0 ASSURANCE OPINION

The Committee is of the opinion that the assurances supplied are reliable, have integrity and are sufficiently comprehensive to support the Board and the Accountable Officer in their decision making and their accountability obligations.

11.0 ANNUAL REPORT AND ACCOUNTS

Following detailed review of the draft document and consideration of the external auditor's report, the Audit Committee consider the annual report and accounts taken as a whole is true and fair, balanced and understandable and provides the information necessary for stakeholders to assess the Care Inspectorate's performance and strategy.

On this basis, the Committee recommends that the Board approves the Annual Report and Accounts for the year ended 31 March 2017.

12.0 RESOURCE IMPLICATIONS

There are no resource implications to consider.

13.0 BENEFITS FOR PEOPLE WHO EXPERIENCE CARE

The Audit Committee is a key element of the Care Inspectorate's governance arrangements and system of internal control. The Audit Committee has a significant role to play in managing risks that may prevent the achievement of corporate objectives which are all ultimately intended to benefit people who experience care. Clear communication between the Audit Committee and the Board is essential to the performance of this role and this annual report to the Board is an important part of this communication process.

Version: 2.0	Status: <i>Final</i>	Date: 13/09/17
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