



BOARD MEETING 26 September 2019

**Agenda item 13.1
Report No: B-33-2019**

Title:	Audit Committee Annual Report to the Board 2018/19		
Author:	Bernadette Malone, Audit Committee Convener		
Appendices:	1.		
	2.		
	3.		
	4.		
Consultation:			
Resource Implications:	No		

Executive Summary:	
<p>In accordance with the Audit and Assurance Committee Handbook, the Audit Committee prepares an annual report to the Board. This report presents a summary of the work of the Audit Committee during 2018/19 and provides the Committee's opinion on the assurance that this work provides.</p> <p>The report also provides the outcome of the Committee's consideration of the 2018/19 Annual Report and Accounts including the Annual Governance Statement. Following this consideration, the Committee recommends that the Board approves the 2018/19 Annual Report and Accounts.</p>	
It is recommended that the Board:	
1.	Approves the 2018/19 Annual Report and Accounts.
2.	Agrees that it is appropriate for the Chief Executive to sign the Annual Report and Accounts at all appropriate points within the document.

Links:	Corporate Plan Outcome		Risk Register Number		EIA Y/N	N
For Noting		For Discussion		For Assurance		For Decision X

AUDIT COMMITTEE ANNUAL REPORT TO THE BOARD 2018/19

1.0 INTRODUCTION

- 1.1 The purpose of this report is to provide evidence to the Board as to how the Audit Committee has fulfilled its remit, and how effectively it has discharged its responsibilities.

The report details the following:

- Summary of the Audit Committee's activities relating to the financial year 2018/19
- An opinion on the adequacy and effectiveness of the Care Inspectorate's framework of governance, risk and control and how the organisation has secured best value
- The Committee's priorities for 2019/2020

Furthermore, this report underpins the Board's own opinions on the Annual Governance Statement in the annual report and accounts.

2.0 REMIT AND MEMBERSHIP OF THE AUDIT COMMITTEE

2.1 Remit

The Audit Committee meets at least four times per year. The main purpose of the Audit Committee is to review and maintain oversight of the Care Inspectorate's corporate governance, particularly with respect to financial reporting and internal control and risk management. The Committee's responsibilities also include oversight of the internal audit arrangements; engagement with the external auditors and their work; oversight and evaluation of the management of risks and business continuity planning; and to advise the Board on the development of performance measures which support the implementation of the Corporate Plan. The Committee's current remit is attached in Appendix 1. This was reviewed at the Committee's annual effectiveness and self-evaluation session on 7 March 2019 and changes have been recommended to the Board for the 2019/20 cycle.

2.2 Membership

The Board appoints non-executive Board members to the Audit Committee. During 2018/19 the following Board members served on the Audit Committee:

Mike Cairns	Until February 2019; Convener until November 2018
Gavin Dayer	
Ian Doig	Until February 2019
Rognvald Johnson	
Bernadette Malone	Convener from November 2018
Bill Maxwell	
Linda Pollock	
Keith Redpath	

Where appropriate, the Committee augments the skills and experience of its members by seeking advice from internal and external auditors, and senior management.

3.0 RISK AND INTERNAL CONTROL

3.1 Internal Audit Reports

The Care Inspectorate's Internal Auditors, Scott-Moncrieff, presented six reports for consideration by the Audit Committee consistent with the Internal Audit Plan, with one exception - Business Transformation - which is scheduled to be reported to the September 2019 meeting of the Audit and Risk Committee.

The Committee has expressed concern at some delays in reporting by the Internal Auditors and has resolved to introduce improved committee management processes.

Scott-Moncrieff use a system for categorising assurance levels for each control assessed as follows:

Red	Fundamental absence or failure of key control
Amber	Control objective not achieved – controls are inadequate or ineffective
Yellow	Control objective achieved – no major weaknesses but scope for improvement
Green	Control objective achieved – controls are adequate, effective and efficient

In addition to the above control assessments, Scott-Moncrieff assign management action grades to demonstrate risk exposure. These are graded using consistent colour coding as follows:

Red	Very high-risk exposure: major concerns requiring immediate senior attention that create fundamental risks within the organisation
Amber	High risk exposure: absence/failure of key controls that create significant risks within the organisation
Yellow	Moderate risk exposure: controls are not working effectively and efficiently and may create moderate risks within the organisation
Green	Limited risk exposure: controls are working effectively but could be strengthened to prevent the creation of minor risks or address general house-keeping issues.

The following reports were considered by the Committee:

Report	Committee Date	Control Objective Assurance Level	Management Action Risk Exposure
ICT Healthcheck	13 September 2018 (Audit Plan 17/18)	3 amber, 1 green	10 amber, 1 yellow, 1 green
Budget setting & monitoring	7 March 2019	7 green	1 green
Payroll	30 May 2019	1 amber, 2 Yellow, 4 green	1 amber, 1 yellow
Business Continuity Planning	30 May 2019	4 amber	4 amber
Complaints	30 May 2019	2 amber, 2 yellow	1 amber, 4 yellow

The Internal Audit Annual Report 2018/19 was not prepared in time for consideration at the Committee’s May 2019 meeting and will now be considered at the September 2019 meeting.

3.2 Implementation of Audit Recommendations

Throughout the year, the Committee monitored management’s progress towards implementing audit recommendations. This is achieved by reviewing the recommendations in follow up reports prepared by the internal auditors which summarise progress on completed actions at each meeting of the Committee.

Of the 21 managements actions agreed by the Committee which were due to be completed by 31 March 2019, 18 (86%) were fully implemented and three (14%) were partially completed. The Committee was informed of progress, the reasons for revised completion dates and subsequently approved these.

The Committee has carefully considered all reports by the Internal Auditors and considers these to be comprehensive. The Committee has robustly challenged any slippage in completing agreed actions. In particular, the Committee agreed to revise seven management action completion dates from the ICT Healthcheck internal audit report following consideration of the justification by the senior management team.

3.3 Committee Opinion

Overall, the Committee is of the view that the system of internal controls and management of risks associated with these is effective.

4.0 EFFECTIVENESS OF INTERNAL AUDIT

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the internal audit function. The Audit Committee reviews the effectiveness of internal controls and receives reports from the Internal Auditors.

The Strategic Internal Audit Plan (2016-19) and Internal Audit Plan 2018/19 along with the associated assignment plans for 2018/19 were approved and the Committee monitored progress against this plan throughout the year.

The draft Internal Audit Plan 2019/20 was discussed at the Audit Committee meeting of 7 March 2019. A discussion document set out the strategy for developing the 2019/20 internal audit plan and agreed that a joint Care Inspectorate/Scottish Social Services Council (SSSC) audit of income and receivables be undertaken in May 2019.

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 version of these plans along with 2019/20 individual audit assignment plans were considered and approved with some minor changes.

In May 2018, the Committee agreed to extend the contract with Scott-Moncrieff for one year from March 2019. A joint procurement with SSSC is currently underway.

The Committee has stated its desire to see improvements in the quality and effectiveness of the internal audit function.

5.0 ENGAGEMENT WITH EXTERNAL AUDIT

Grant Thornton, our external auditors are appointed by the Auditor General for Scotland.

The Committee engages regularly with external audit. The Committee considers the results of external audit work and the implementation of actions against audit recommendations. In March 2019, the Committee considered and subsequently approved the External Audit Plan for 2018/19 submitted by Grant Thornton. The Committee also monitors coordination and engagement between internal and external audit to ensure there is no unnecessary duplication of audit work.

6.0 RISK MANAGEMENT FRAMEWORK

A report on strategic risks is a standing item on the Committee agenda providing a facility for the Executive Group to escalate any issues pertaining to risk including identify any emerging issues.

At its meeting in May 2018, the Committee reviewed the draft strategic risk register, a refreshed risk appetite statement and considered risk tolerances for each of the strategic risks. The Committee agreed to recommend to the Board amendments to the Strategic Risk Register which were subsequently approved by the Board and is published on the Care Inspectorate's website.

Whilst the Committee acknowledged current reporting arrangements whereby Management can escalate risks to the Audit Committee was helpful, this was considered insufficient to ensure effective oversight of all strategic risks. The Committee therefore agreed to develop its formal role in monitoring the Strategic Risk Register which will be considered in full twice per year.

7.0 ANNUAL REPORT AND ACCOUNTS

7.1 Annual Report and Accounts 2018/19

The Committee considered the draft 2018/19 Annual Report and Accounts in detail at a meeting specifically arranged for this purpose in August 2019. This meeting was open to all Board members to attend.

The draft 2018/19 Annual Report and Accounts were considered again in conjunction with the external auditor's report and management letter at the Audit Committee meeting of 12 September 2019.

Following this detailed review of the draft document and consideration of the external auditor's report, the external auditor's unmodified opinion and letter to those charged with governance, 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.

7.2 Annual Governance Statement

The Committee has a specific responsibility to consider the Annual Governance Statement which is contained within the Annual Report and Accounts. The Committee is content the statement addresses all pertinent issues.

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 2019 and up to the date of approval of the Annual Report and Accounts.

7.3 Recommendation

The Committee recommends that the Board approves the Annual Report and Accounts for the year ended 31 March 2019 and the incorporated Governance Statement.

8.0 FRAUD, IRREGULARITY, WHISTLEBLOWING

8.1 Reported in 2018/19

The Care Inspectorate's whistleblowing policy enables staff, in confidence, to raise concerns about any matters of possible improprieties and to be protected in doing so. There is also a Counter Fraud and Corruption Framework in place. The Committee has not received any reports detailing fraud, irregularity or whistleblowing.

8.2 Audit Committee Whistleblowing Role

As a result of the Committee's review of effectiveness, the Board has been asked to consider the reporting arrangements for whistleblowing, as the role of the Audit Committee in respect of this is unclear. This is currently under consideration.

9.0 AUDIT COMMITTEE DEVELOPMENTS

9.1 Proactive Approach

The Audit Committee, with the support of senior officers, has proactively introduced strengthened procedures, provided guidance on its requirements for regular monitoring of organisational change programmes and established an approach to considering lessons learned from relevant governance challenges as follows:

9.1.1 Assurance Mapping

A key strategic development is the introduction of an **assurance mapping** approach proposed by our Internal Auditors Scott Moncrieff, and subsequently led by the Kenny Dick, Head of Finance and Corporate Governance. This approach is consistent with emerging practice recommended by the Scottish Government. The Committee agreed to prioritise this method of assurance and accepted the recommendation of the Head of Finance and Corporate Governance to focus initially on two areas of strategic importance namely, Digital Transformation and Financial Reporting. The Committee welcomed the progress which had been made within a short timescale and stressed the importance of streamlining processes to minimise any additional workload for the Head of Finance and Corporate Governance and his team. The Committee has requested that the Board consider this approach at a future Board development session.

9.1.2 ICT Shared Service

The Committee considered an independent report of lessons learned following the cessation of the **ICT shared services** between the Care Inspectorate and SSSC. The Committee received assurances that the learning points would inform future joint managerial and operational arrangements.

The Committee fully considered the financial consequences of the cessation of shared ICT services. The Committee recommended to the Board that this should be kept under review.

The Committee has also considered a Section 22 report by the Auditor General for Scotland published in December 2017. This was subject to further discussion led by the Chief Executive and a report on governance arrangements will be considered by the Committee on 12 September 2019.

9.1.3 Cyber Resilience

In March 2018 the Committee received a report on progress the Care Inspectorate had made against the Scottish Government's Public Sector Action Plan on **Cyber Resilience for Scotland**. The Committee was informed that the Inspectorate received Cyber Essentials Accreditation in June 2018. Cyber Essentials Plus Accreditation will be sought following completion of the ICT Modernisation Project. The Committee noted further work would be carried out with our Internal and External Auditors in relation to Cyber Attack Reporting. In November 2018 the Committee received a report on planned improvements for Cyber Resilience and the progress on the implementation of management actions in the ICT Health check Internal Audit Report.

9.1.4 Audit and Assurance Committee Handbook

A report by the Internal Auditors to the Committee noted the increased responsibilities placed on them by Scottish Government's revisions to the **Audit and Assurance Committee Handbook**. The Committee noted the need for the Audit Committee to clearly set out its assurance framework and understand the various sources of assurance it receives, and the roles that those assurance providers play. The Audit Committee also noted the "Three lines of Defence Model".

9.1.5 Change Programme

The Committee has introduced a monitoring programme for the Care Inspectorate's **change programme**. An overview report detailing the Red, Amber, Green (RAG) status of each programme workstream is considered at each meeting of the Committee and a schedule of 'deep dive' assessments is being developed in conjunction with senior officers. The Audit Committee commenced this revised process with consideration of the Digital Transformation workstream which included the original business case, financial modelling, key milestones and an update on key risks.

9.1.6 Brexit

As part of its horizon scanning work, the Committee considered the impact of a "Hard Brexit" on regulators as well as the potential impact on the social care workforce. The Committee received assurances that officers were engaging with Scottish Government, key partners and other regulators on this subject.

10.0 SELF ASSESSMENT, EFFECTIVENESS AND DEVELOPMENT REVIEW

In March 2019, the Audit Committee undertook its annual self-assessment exercise using the Scottish Government's checklist as contained in the Audit and Assurance Handbook for public bodies. Individual assessments informed the Committee's discussion, following which it was agreed that the Committee's approach was largely compliant.

The following areas were identified for improvement and/or further development, including amendments to the remit of the Committee. These were reported to the Board at the annual Board Governance Review on 30 May 2019 and included the following:

- a more explicit role in reporting to Board on the Care Inspectorate's annual accounts and detail of the Committee's remit in reviewing accounting policies
- inclusion of Best Value within the Committee's terms of reference
- the ability for the Committee to co-opt, with the approval of the Board
- specific induction and training on audit for Committee members
- an improved committee administration process through scheduled pre-meeting reviews of final reports by the Convener, lead officer and secretariat.

11.0 PRIORITIES FOR 2019/20

In addition to ensuring effective oversight of internal audit, the Committee has agreed the following priorities for 2019/20:

1. Procurement and engagement of internal auditors for the period 2020/21 to 2022/23 (with an option to extend for two further years.)
2. Further development of assurance mapping
3. Monitoring of the organisation's Change Programme following the introduction of a RAG status standard report and a programme of 'deep dive' reviews of each of the workstreams
4. Introduction of a revised approach to monitoring of the Strategic Risk Register
5. Consideration of the effectiveness of financial planning and budget monitoring
6. Improvements to the quality and efficiency of Internal Audit function
7. Consideration of the Committee's role with regards to reporting of the organisation's financial position following the dissolution of the Resources Committee.

12.0 AUDIT COMMITTEE'S FORMAL OPINION

As Convener of the Audit Committee from November 2018, I am satisfied that the frequency of meetings, the breadth of the business undertaken and the diversity of attendees supported by senior officers has allowed the Committee to fulfil its remit, recognising that some adjustments are required following restructuring of committees. It is important going forward, however, that attendance at meetings of the committee is maximised to ensure a continued mix of skills appropriate to ensuring an effective Audit Committee.

The Audit Committee's review of effectiveness has highlighted some areas for development including the role of the Committee in ensuring Best Value. The Committee continues to engage formally and regularly with our internal and external auditors. This has ensured the Committee is able to fully understand the effectiveness of our assurance and risk functions and to be advised of any emerging risks.

The Audit Committee has carefully considered the effectiveness of controls and risk management. There is nothing material to the work of the Care Inspectorate which has been highlighted to the Board over the past year. As the re-named Audit and Risk Committee, we will continue to focus on challenging the effectiveness of internal controls and the robustness of risk management processes going forward.

I would pay tribute to the commitment of members of the Audit Committee and to all attendees. I am especially grateful to those who prepare reports and for the quality of professional advice given by senior management, particularly the Head of Finance and Corporate Governance and the Executive Director of Corporate and Customer Services. I am also extremely grateful to Fiona Angus, Executive and Committee Support Manager, for her continued guidance and support.

13.0 IMPLICATIONS AND/OR DIRECT BENEFITS

13.1 Resources

There are no resource implications associated with this report.

13.2 Sustainability

There are no sustainability implications associated with this report.

13.3 Government Policy

There are no government policy implications associated with this report.

13.4 People Who Experience Care

There are no direct benefits for people who experience care.

13.5 Customers (Internal and/or External)

There are no direct customer implications or benefits.