Audit Committee Annual Report to the Board

Report to: Board

Date: 27 September 2018

Report by: Mike Cairns, Convener of the Audit Committee

Report No: B-56-2018

Agenda Item: 13.1

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 2017/18 Annual Report and Accounts.

Consultation Log

Version	Consultation	Manager	Brief Description of Changes	Date
2.0	Senior Management			
	Legal Services			
	Corporate and Customer Services Directorate			
	Committee Consultation (where appropriate)	Audit Committee	Minor changes Minor changes	29.5.18 13.9.18
	Partnership Forum Consultation (where appropriate)			
Equality Impact Assessment				

Confirm that Involvement and Equalities Team have been informed	YES ☐		NO ☐	
EIA Carried Out	YES ☐		NO ☒	
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: Interim Executive Director Corporate and Customer Services			
Authorised by Interim Director	Name: K Dick	Date: 4 September 2018		

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1.0 INTRODUCTION

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 categorising assurance levels where each control objective is assessed and categorised using a colour coded approach. The colour code system is as follows:

RED   Fundamental absence or failure of key controls.

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. They are graded, using the same colour coding as follows:

4	**RED**	Very high risk exposure - major concerns requiring immediate senior attention that create fundamental risks within the organisation
3	**AMBER**	High risk exposure - absence / failure of key controls that create significant risks within the organisation.
2	**YELLOW**	Moderate risk exposure - controls are not working effectively and efficiently and may create moderate risks within the organisation.
1	**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.

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All internal audit reports were submitted to Committee in line with the Internal Audit Plan with the exception of the Registration audit report as the audit timing was moved to accommodate key Registration staff holidays, and further delay occurred due to illness. The ICT Healthcheck Audit performed in the final quarter of the year will be submitted to the Audit Committee meeting of September 2018.

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

Audit Plan Year	Report	Committee Date	Control Objective Assurance Level
2016/17	Workforce Planning	25/5/17	3 yellow
2017/18	Strategic planning	21/9/17	1 yellow
2017/18	Registration	8/3/18	3 amber 7 yellow
2017/18	Financial Systems	8/3/18	3 yellow 1 green
2017/18	Risk Management	8/3/18	5 yellow

Five unused planned audit days from 2016/17 were used during 2017/18.

3.2   Consideration of the Care Inspectorate's 2016/17 Annual Report and Accounts

The Committee held a meeting on 17 August 2017 dedicated to a detailed review of the draft Annual Report and Accounts. At the meeting of 21 September 2017, the Committee considered the draft Annual Report and Accounts for 2016/17 and the associated report from Grant Thornton and recommended that the Board approve the 2016/17 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 (2016-19) and Internal Audit Plan 2017/18 along with the associated assignment plans for 2017/18. The Committee monitored progress against this plan throughout the year.

The draft Internal Audit Plan 2018/19 was considered at the Audit Committee meeting of 8 March 2018. This document set out the Strategic Internal Audit Plan 2016-19 which included the draft internal audit programme for 2018/19. The review of annual and strategic audit plans strives to ensure a strong relationship between

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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 2018/19 individual audit assignment plans are to be approved early in the 2018/19 financial year.

The Committee received the External Audit Plan for 2017/18 from the 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 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 21 actions due to be implemented by 31 March 2018, 18 (86%) were fully implemented and 3 (14%) were partially completed. Committee were informed of progress to date and reasons for any revised completion dates. The Committee noted there were no "high risk" or "very high risk" recommendations outstanding.

3.5   Other Work

Counter Fraud and Corruption Framework

The Care Inspectorate's new Counter Fraud and Corruption Framework, including a counter fraud and corruption policy, strategy and response plan together with a formal action plan were agreed in May 2017. This replaced the Fraud Policy and Response Plan. A fraud and corruption risk register was also agreed to document the controls in place to mitigate fraud.

Review of Risk and Risk Management

In May 2017 the Committee reviewed the 2017/18 draft Strategic Risk Register and approved it for onward submission to the Board. The Committee also approved a revised Care Inspectorate Risk Policy and template which included new sections covering risk levels, risk escalation procedures and risk appetite.

In November 2017, the Committee reviewed the nine strategic risks and considered further developments to the risk regime and this was part of further discussions held with the Board at its development event in February 2018. The risk model used gives a visual presentation in identifying the strategic risks.

During the year the Committee considered risk at each of its meetings and where necessary this included any risks escalated from the Executive Team and any emerging risks.

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A revised draft risk register was presented to the Committee on 29 May 2018, together with a refreshed risk appetite statement and risk tolerances outlined for each of the strategic risks. The revised strategic risk register is published on the Care Inspectorate website.

Corporate Governance Review Group

The Corporate Governance Review Group (CGRG) did not meet in 2017/18 due to the process of applying for and the ultimate successful award of the CIPFA Excellence in Governance Chartermark. It is intended the group will next meet in quarter one of 2019/20.

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 and other relevant publications.

General Data Protection Regulations (GDPR)

In November 2017 the Committee received a presentation on the General Data Protection Regulations (GDPR). Members were informed about the key changes and mandatory requirements under the legislation and they were advised of the activity that the Care Inspectorate was undertaking to address its compliance obligations. Members were pleased to note that the Care Inspectorate had a fully comprehensive work plan in place.

Cyber Resilience

In March 2018 the Committee received a report on the progress the Care Inspectorate had made against the Scottish Government's Public Sector Action Plan on Cyber Resilience for Scotland.

Business Transformation

The Committee received an update on the risks around the Business Transformation project in May 2017.

3.6   Priorities for the 2018/19 year

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 of Risk Appetite and Risk Tolerance

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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 for 2019/20.

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 continue to monitor 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 came into force on 25 May 2018.

Counter Fraud and Corruption Framework

The Committee will review the Counter Fraud and Corruption Framework. It is anticipated that a shared service arrangement will be agreed with NHS Counter Fraud Services (CFS) during 2018/19.

Business Transformation

The Committee will continue to consider and monitor risks associated with the Business and Digital Transformation programme.

Cyber Resilience

The Committee will continue to monitor progress the Care Inspectorate is making against the Public Sector Action Plan on Cyber Resilience for Scotland.

4.0   PROGRAMME OF COMMITTEE MEETINGS

The table below details expected business for the Audit Committee during 2018/19.

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4.1

2018/19	
Meeting Date	**Business**
29 May 2018	Internal Audit: • Recommendations Follow up Report • Internal Audit Annual Report 2017/18 • Strategic Internal Audit Plan 2016-19 and Final Annual Internal Audit Plan 2018/19 • Review of Individual Internal Audit Assignment Plans 2018/19 • D2. ICT Healthcheck Internal Audit Report Care Inspectorate: • Draft Audit Committee Annual Report to Board 2017/18 • Risk Policy Review • Draft Strategic Risk Register 2018/19
16 August 2018	External Audit: • Annual Report and Accounts statutory audit progress Care Inspectorate: • Draft Audit Committee Annual Report to Board 2017/18 • Draft Annual Report and Accounts
13 Sept 2018	Internal Audit: • Internal Audit Plan 2018/19 Progress Report • Recommendations Follow up Report • Internal Audit Reports • Internal Audit private meeting with Audit Committee External Audit: • Report to those charged with governance on the 2017/18 audit Care Inspectorate • Draft Annual Report and Accounts 2017/18 • Counter Fraud & Corruption Framework annual review • Draft Audit Committee Annual Report to Board 2017/18
29 Nov 2018	Internal Audit: • Internal Audit Plan 2018/19 Progress Report • Recommendations Follow up Report • Internal Audit Reports External Audit: • Progress update • Private Meeting with External Auditors

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TBC	Care Inspectorate: • Performance Management Framework for 2019/20 • Audit Committee Effectiveness Session
7 March 2018	Internal Audit: • Review of Strategic Internal Audit Plan 2019-22 & Draft Internal Audit Plan 2019-20 • Internal Audit Plan 2018-19 Progress Report • Internal Audit Follow-up Report • Internal Audit Reports External Audit: • Annual Audit Plan 2018/19 Care Inspectorate: • Counter-fraud and Corruption Framework annual review • Update of Strategic Risk Register

4.2 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 29 May 2018 that there had been no incidences of fraud detected during the 2017/18 financial year.

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.

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. It

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should be noted that new members would be joining the Committee in 2018/19.

- 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 2017/18. The Committee's agreed opinion was that the standard of internal audit work and the reports produces was 'adequate'.

8.0 QUALITY OF EXTERNAL AUDIT

8.1 The Care Inspectorate's external auditors, Grant Thornton, are appointed by the Auditor General for Scotland. The audit of the 2017/18 Annual Report and Accounts will be the second year of Grant Thornton's engagement.

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

9.0 GOVERNANCE STATEMENT

9.1 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 2018 and up to the date of approval of the Annual Report and Accounts.

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

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

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10.0 ASSURANCE OPINION

10.1 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

11.1 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.

11.2 On this basis, the Committee recommends that the Board approves the Annual Report and Accounts for the year ended 31 March 2018.

12.0 RESOURCE IMPLICATIONS

12.1 There are no resource implications to consider.

13.0 BENEFITS FOR PEOPLE WHO EXPERIENCE CARE

13.1 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.

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