

REPORT

Item No:

SUBJECT:	Internal Audit Report – Risk Maturity Assessment
TO:	Performance, Finance and Audit Committee
Lead Officer for Report:	Chief Officer
Author(s) of Report	Chief Financial Officer
DATE:	27 August 2019

1. PURPOSE OF REPORT

1.1 This paper is coming to the Performance, Finance and Audit (PFA) Committee:

For approval	<input type="checkbox"/>	For endorsement	<input checked="" type="checkbox"/>	For noting	<input type="checkbox"/>
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1.2 This report provides the details of one of the internal audit assignments undertaken as part of the 2017/2018 internal audit plan for the Integration Joint Board (IJB). The scope of this review is to evaluate and report on the risk maturity of the organisation. This audit was delayed in order to allow developments in joint risk management to be implemented across the partnership and to allow a parallel review to be undertaken in the South Lanarkshire IJB.

2. ROUTE TO THE PERFORMANCE, FINANCE AND AUDIT COMMITTEE:

2.1 This paper has been:

Prepared By; Chief Internal Auditor, NHS Lanarkshire Health Board and Audit and Risk Manager, North Lanarkshire Council	Reviewed By; Chief Financial Officer	Endorsed By; Chief Officer
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3. RECOMMENDATIONS

3.1 The PFA Committee is asked to agree the following recommendation:

(1) Note the contents of the report.

4. VARIATIONS TO DIRECTIONS

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	N/A	<input type="checkbox"/>
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5. BACKGROUND/SUMMARY OF KEY ISSUES

5.1 This report presents the results of the recently completed internal audit work undertaken by NHS Lanarkshire (NHSL) in line with the North Lanarkshire IJB Internal Audit Plan for 2017/2018 previously approved on 12 September 2017. The purpose of this audit was to undertake a review of the systems of risk management and to assess the IJB's risk maturity. It also considered the assurance mechanisms for the key controls required to implement a risk based audit assessment.

5. BACKGROUND/SUMMARY OF KEY ISSUES (CONT.)

5.2 The lead for this audit was the Chief Internal Auditor for the NHS Lanarkshire Health Board. On conclusion of the internal audit fieldwork, the Audit and Risk Manager for North Lanarkshire Council was also consulted. The completed audit report is attached as an appendix.

6. CONCLUSIONS

6.1 The internal auditors concluded that the IJB has made good progress and that adequate arrangements are in place. However, further work is now required, both to meet good practice and to reflect the IJB's increasing maturity as an organisation and better understanding of the complex assurance arrangements with its partners. Whilst there are a significant number of further actions required, many of these should be seen as enhancements which will allow the IJB to embed risk management fully within its activities, in line with national and international best practice.

6.2 The outcome of this audit therefore offered 'adequate assurance'. This means that the systems for risk, control and governance are largely satisfactory, but there is some scope for improvement as the present arrangements could undermine the achievement of business and/or control objectives and/or leave them vulnerable to some risk of error/abuse.

6.3 No areas were identified which required urgent management attention. Seven recommendations were proposed and agreed, all of which were categorised as amber i.e. weaknesses which require prompt action to avoid exposure to risks in achieving objectives. Five areas of good practice were noted during the audit.

7. IMPLICATIONS

7.1 NATIONAL OUTCOMES

This relates to all nine national outcomes.

7.2 ASSOCIATED MEASURE(S)

The internal audit arrangements for the IJB are an integral part of the overall governance arrangements and this service makes a key contribution to the ongoing development of health and social care integration.

7.3 FINANCIAL

This paper has been reviewed by Finance:

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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7.4 PEOPLE

None.

7.5 INEQUALITIES

EQIA Completed:

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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7.6 CARBON MANAGEMENT IMPLICATIONS

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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8. BACKGROUND PAPERS

None.

9. APPENDICES

Risk Maturity Assessment Internal Audit Report

Appendix

10. VARIATIONS TO DIRECTIONS

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	N/A	<input type="checkbox"/>
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CHIEF OFFICER (or Depute)

Members seeking further information about any aspect of this report, please contact Marie Moy on telephone number 01698 453709.

RISK MATURITY ASSESSMENT

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- 1. Executive Summary** **2. Findings and Recommendations** **3. Action Plan**
Appendix 1 – Audit grading

Issued to: Chief Officer **Copied to:** Chief Financial Officer and Operational and Business Manager

Headlines

Integrated Resources Advisory Group Finance guidance states that *‘The Chief Officer will be responsible for establishing the Integration Joint Board’s risk strategy and profile and developing the risk reporting arrangements. There should be regular reporting on risk management to the Integration Joint Board’*.

The CIPFA ‘Delivering Good Governance’ in Local Government Framework 2016 places a responsibility on the authority to ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.

The Public Sector Internal Audit Standards (PSIAS) 2010 state that *‘the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes’*.

The North Lanarkshire Integration Scheme set out the requirement for the IJB and the parties to establish a shared Risk Management Strategy (RMS) and methodology and to work together to produce a shared risk register. North Lanarkshire shadow IJB approved the IJB Risk Management Strategy on 15 September 2015 and has received regular reports on the risk register.

The scope of this review was to evaluate and report on the risk maturity of the organisation. The Institute of Internal Auditors (IIA) document ‘An approach to implementing Risk Based Internal Auditing’ provides guidance on assessing the organisation’s risk maturity and Annex F of the Scottish Public Finance Manual Audit Committee Handbook 2008 sets out Key Lines of Enquiry for an Audit Committee including assessment of risk management processes.

We have concluded that North Lanarkshire IJB has made good progress and that adequate arrangements are in place. However, further work is now required, both to meet good practice and to reflect the IJB’s increasing maturity as an organisation and better understanding of the complex assurance arrangements with its partners. Whilst there are a significant number of further actions required, many of these should be seen as enhancements which will allow the IJB to embed Risk Management fully within its activities, in line with national and international best practice.

In particular, there is an opportunity to engage the IJB Board in the update of the Risk Register, to use insights gained from the ongoing update of the Strategic Commissioning plan and to reflect on the lessons learned from the last three years, as well as overtly taking into account the risk registers of partner bodies. There is also potential to greatly enhance the interaction between risk management, decision-making and performance management and to increase the level of assurance over both current controls and the actions required to manage risks down to agreed tolerance.

It should be noted that this audit was delayed in order to allow developments in joint risk management to be implemented and in order to allow a parallel review to be undertaken in South Lanarkshire IJB.

Assurance Opinion (see definition at Appendix 1)	Adequate assurance
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Report status	DRAFT	Audit ref	NL04/18
Date issued	01/08/2019	Management response due by	15/08/2019
Audit Team	A Gaskin Bsc ACA		

1. Executive Summary

Objectives

Integrated Resources Advisory Group Finance guidance states that *‘The Chief Officer will be responsible for establishing the Integration Joint Board’s risk strategy and profile and developing the risk reporting arrangements. There should be regular reporting on risk management to the Integration Joint Board’*.

The CIPFA ‘Delivering Good Governance’ in Local Government Framework 2016 places a responsibility on the authority to ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.

The Public Sector Internal Audit Standards (PSIAS) 2010 state that *‘the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes’*.

The scope of this review is to evaluate and report on the risk maturity of the organisation. The Institute of Internal Auditors (IIA) document ‘An approach to implementing Risk Based Internal Auditing’ provides guidance on assessing the organisation’s risk maturity and Annex F of the Scottish Public Finance Manual Audit Committee Handbook 2008 sets out Key Lines of Enquiry for an Audit Committee including assessment of risk management processes.

The following risks were identified as within scope for this audit:

- The organisation may not be managing risks appropriately because it does not have a comprehensive risk management framework, congruent with those of its partner organisations in place comprising appropriate strategy, structures, policies and procedures based on sound risk management principles appropriate to integrated working;
- Risk are not considered and addressed as part of all decision making activities;
- All relevant strategic and operational risks may not be accurately identified, assessed, evaluated, recorded and monitored;
- The quality of data including risks, controls and assurance may not be to the required standard;
- Risk responses may not be appropriate and aligned with an appropriately defined and approved risk appetite;
- Relevant risk information may not be captured and communicated in a timely manner across the organisation, enabling staff, management and the Board to carry out their responsibilities;
- Users may not have appropriate knowledge of, and access to, robust risk management systems which are structured to allow partnership working;
- Training and awareness for all stakeholders of the risk management process may be insufficient;
- Adequate resources may not be available to support the risk management process;
- Risks with partner organisations may not be appropriately managed;
- Responsibility for managing operational risks is clearly assigned;
- Effective assurance and reporting arrangements are in place over all risks relating to delegated functions;
- Appropriate assurances are provided to all relevant bodies and their Audit Committees on the operation of risk management and the integrity of systems.

This engagement has been conducted in accordance with the *‘Public Sector Internal Audit Standards’*. Both Internal Audit departments report periodically formally on conformance with these standards to their respective Audit Committees.

2. Findings and Recommendations

Number and category of recommendations raised (see definition of priority at Appendix 1)	Red	Amber	Green
	0	7	0

Key areas requiring management action (Red)
There were no areas requiring urgent management attention identified.

Good practice identified
<p>We noted the following areas of good practice during the audit:</p> <ul style="list-style-type: none"> • The IJB first approved its Risk Management Strategy (RMS) in September 2015 and it was updated and approved by the IJB in February 2018. The Strategy clearly states where responsibility for operational risks lies. • The Risk Register is reported regularly to the Senior Leadership Team, the IJB Performance, Finance and Audit Committee and the IJB. • Arrangements for monitoring of risks shared with the Health Board have been established. • Risk appetite has been defined and approved by the IJB; these include reporting arrangements for risks above appetite which are being adhered to. • A senior officer has been identified to maintain the Strategic Risk Register.

3. Action Plan

Ref	Finding	Implication	Recommendation	Priority	Management response	Implementation
						Month/Year
1	Although the IJB has agreed and is implementing a procedure with the Health Board for considering shared risks, this is not reflected in the RMS (which contains a passage not in line with best practice or current arrangements) and, more importantly, similar arrangements have not been established with the Local Authority.	The IJB and Council may not have a shared approach to these risks and escalation between the two bodies may be ineffective. The RMS does not reflect actual practice.	The IJB should propose to the Local Authority a similar approach to that adopted between the IJB and Health Board and the RMS should be updated accordingly when the approach has been agreed.	Amber	Agreed Responsible Officer: Ross McGuffie Designation: Chief Officer	A similar approach to that adopted between the IJB and Health Board will be discussed and agreed with the Local Authority. The RMS will also be updated to reflect the revised arrangements. March 2020

Ref	Finding	Implication	Recommendation	Priority	Management response	Implementation
2	Although the Risk Appetite has been approved by the IJB, it has not been applied to all Strategic Risks so that some target risks are below the agreed appetite with no explanation.	Effort and resources may be expended reducing risks to below the agreed appetite whilst other risks remain above appetite. Officers may not understand the importance of implementing the appetite agreed by the IJB Board.	Either the agreed appetite should be implemented or a revised appetite, reflecting the underlying reasons for these exceptions should be presented to and approved by the IJB.	Amber	<p>Agreed</p> <p>Responsible Officer: Christine Jack</p> <p>Designation: Operational & Business Manager</p>	<p>The Risk Appetites will be reviewed. The application of this concept will also be refreshed. The reduction of all risks to as minimal a level as possible is a positive outcome.</p> <p>March 2020</p>
3	Whilst the Risk Register is subject to continuous review and is updated regularly, there has not been a fundamental review involving all IJB members and referencing partner body Risk Registers. The Strategic Commissioning Plan is currently being updated.	The Risk Register may not take into account the knowledge and views of all IJB members and the lessons learned from updating the Strategic Commissioning Plan.	The IJB should consider a specific Board Development Event or similar to consider a fundamental review of the Risk Register, taking into account lessons learned from the production of the Strategic Commissioning Plan (including potential obstacles to its delivery), also overtly considering relevant risks from partner bodies' (including SL IJB) Risk Registers.	Amber	<p>Agreed</p> <p>Responsible Officer: Christine Jack</p> <p>Designation: Operational & Business Manager</p>	<p>A specific Board Development Event will be organised to review the Risk Register.</p> <p>March 2020</p>
4	There is little evidence that management actions and controls are effectively reducing the risk levels and six risks are above appetite. Controls (the measures which reduce risk to its current level) and actions (measures which are intended to reduce the risk to its target level) are not differentiated within the Risk Register and there is currently no overt assurance on their effectiveness.	The PFAC may not be able to assure itself that controls are operating effectively nor that there is a realistic prospect of target risk scores being achieved.	<p>Controls and actions should be differentiated and assurance received on both.</p> <p>The forthcoming assurance mapping exercise may be helpful in this regard but will require to be updated regularly.</p>	Amber	<p>Agreed</p> <p>Responsible Officer: Christine Jack</p> <p>Designation: Operational & Business Manager</p>	<p>Further clarification of controls and actions will be developed and included in future reports to the IJB.</p> <p>March 2020</p>

Ref	Finding	Implication	Recommendation	Priority	Management response	Implementation
5	The Performance, Finance and Audit Committee (PFAC) does not receive an annual assurance report on risk management and there are no defined KPIs or performance measures for Risk Management.	The PFAC may not be able to conclude on the overall adequacy and effectiveness of Risk Management arrangements.	Suitable KPIs / performance measures should be agreed at the start of the year together with an appropriate methodology for assessing the adequacy and effectiveness of Risk Management. An annual report for 2019/20 should be presented to the PFAC in June 2020 providing assurance on the adequacy and effectiveness of Risk management arrangements for 2019/20.	Amber	Agreed Responsible Officer: Graeme Cowan Designation: Performance Manager	An appropriate methodology for assessing the adequacy and effectiveness of Risk Management arrangements will be developed. This will include suitable KPIs and performance measures. March 2020
6	The Risk Register is regularly reported to the SLT, PFAC and IJB but there is no clear delineation for the responsibilities of each group in relation to these risks and minutes do not show clear evidence of detailed discussion or agreed actions arising.	There is potential for duplication of effort or lack of clarity over which body should take responsibility for monitoring individual risks, controls and actions.	The role of the IJB and PFAC in relation to risk should be clarified and reporting arrangements adopted appropriately i.e. if the PFAC has primary responsibility it should produce an assurance/escalation report to the IJB rather than the Risk Register paper being duplicated. Minutes should reflect the conversations held and record key actions arising.	Amber	Agreed Responsible Officer: Christine Jack Designation: Operational & Business Manager	Responsibility for risk management will be confirmed. The key risk issues discussed will be recorded and existing escalation processes formalised. March 2020
7	Board and PFAC papers do not routinely report on the Risk Management implications of the issues raised.	Decisions may not fully reflect Risk Management considerations. The risk register may not reflect issues highlighted within performance management and other assurance reports.	IJB and PFAC papers should contain a section on risk which considers whether issues raised should be included within the risk register and overtly reflect the impact on any existing strategic risks. Performance reports should reference relevant strategic risks and assess whether scores are accurate and whether actions intended to reduce risk to target level are on track.	Amber	Agreed Responsible Officer: Christine Jack Designation: Operational & Business Manager	The format and content of IJB and PFAC reports will be reviewed to ensure that the management of risks is transparent and effective. March 2020

Appendix 1 - Audit Grading

Audit reports are graded with an overall assurance opinion, and any issues and associated recommendations are classified individually to denote their relative importance, in accordance with the definitions in the tables below.

Definition of audit assurance and recommendation categories

Assurance	Confidence based on sufficient evidence that internal controls are in place, operating effectively and objectives are being achieved.
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Assurance opinion

Level of Assurance	Definition
Substantial Assurance	Sound systems for risk, control and governance are in place and should be effective in mitigating risks to the achievement of business and control objectives. Some minor improvements to existing controls in a few areas may be required.
Adequate Assurance	The systems for risk, control and governance are largely satisfactory, but there is some scope for improvement as the present arrangements could undermine the achievement of business and/or control objectives and/or leave them vulnerable to some risk of error/abuse.
Limited Assurance	The systems for risk, control and governance have some satisfactory aspects, but contain a number of significant weaknesses that are likely to undermine the achievement of business and/or control objectives and leave them vulnerable to an unacceptable risk of error or abuse.

Recommendation priority

Red	Significant weaknesses which management needs to achieve objectives.
Amber	Weaknesses which require prompt action to avoid exposure to risks in achieving objectives.
Green	Action advised/area for improvement to enhance control or improve efficiency.