



REPORT TO: East Lothian IJB – Audit and Risk Committee

MEETING DATE: 15 September 2020

BY: Chief Internal Auditor

SUBJECT: Annual Internal Audit Opinion and Report 2019/20

1 PURPOSE

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit prepares an annual internal audit opinion and report that can be used by the Integration Joint Board (IJB) to inform its governance statement.
- 1.2 The purpose of this report is to inform the Audit & Risk Committee of the internal audit work undertaken in 2019/20 and to provide an opinion on the overall adequacy and effectiveness of the IJB's framework of governance, risk management and control.

2 RECOMMENDATION

- 2.1 The Audit & Risk Committee is asked to note that the Annual Internal Audit Opinion and Report 2019/20 is a formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the IJB's framework of governance, risk management and control for the year ended 31 March 2020.

3 BACKGROUND

Sound Internal Controls

- 3.1 The IJB's senior management has responsibility for establishing a sound system of internal control and for monitoring the continuing effectiveness of these controls. The main objectives of internal control systems are:
- Achievement of the IJB's strategic objectives.
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations and programmes.
 - Safeguarding of assets.
 - Compliance with laws, regulations, policies, procedures and contracts.

- 3.2 A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls or the occurrence of unforeseen circumstances. The IJB is continually seeking to improve the effectiveness of its system of internal control.

Quality Assurance and Improvement Programme (QAIP)

- 3.3 The Public Sector Internal Audit Standards (PSIAS) require that the annual report must incorporate a statement on Internal Audit's conformance with the PSIAS and Local Government Application Note and the results of the Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. Internal Audit is continuously seeking to improve its service and aims to provide a service that remains responsive to the needs of the IJB and maintains consistently high standards. This was achieved in 2019/20 through the following processes:

- Compliance with PSIAS.
- A tailored audit approach using a defined methodology for financial audits.
- A programme of quality control measures which include the supervision of staff conducting audit reviews and the detailed review of working paper files and audit reports.
- The development of personal and training plans – Internal Audit staff undertake a programme of Continuous Professional Development (CPD).

- 3.4 The PSIAS require the development of a Quality Assurance and Improvement Programme (QAIP). The QAIP is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The QAIP must include both internal and external assessments. An internal assessment of internal audit practices was carried out against the PSIAS to ensure conformance to the Standards in February 2020. An External Quality Assessment of the Council's Internal Audit service was undertaken in May 2018 by the Chief Internal Auditor of Argyll and Bute Council, providing a high level of assurance on internal audit's compliance with PSIAS.

Delivery of the Internal Audit Service

- 3.5 Internal Audit is an independent appraisal function established by the IJB to objectively examine, evaluate and report on the adequacy of governance, risk management and control systems. The provision of the Internal Audit service to the IJB is on an in-house basis by East Lothian Council's Internal Audit Unit. In addition to the work undertaken by the in-house team, work is also undertaken by the NHS Lothian Internal Audit team.

- 3.6 Internal Audit reports functionally to the Audit and Risk Committee and has direct access to Senior Management, the Chair of the Audit and Risk Committee and the Chair of the IJB.
- 3.7 In June 2019, the Audit and Risk Committee approved the Internal Audit Plan for 2019/20. Our audit plan was scoped to address the key risks and objectives of the IJB. In 2019/20, Internal Audit reports were issued on Directions Setting, Change Management and Financial Planning.
- 3.8 Due to the significant changes in the operating situation in March 2020 caused by the COVID-19 pandemic, completion of all the planned audit reviews has not been possible. The scheduled audit of Performance Management has been suspended to ensure that scarce management resource required for critical activities was not diverted at this critical time. A revised audit plan recognising the revised risk and control environment has been submitted to this meeting of the Audit & Risk Committee.
- 3.9 Whilst it is important to recognise the altered working arrangements during March 2020 and ongoing, this only impacts the final month of the financial year and the opinion provided is based on the substantial majority of the work completed prior to these altered arrangements. The opinion is restricted by the assurance work that has not yet been completed, however a 75% audit plan full completion allows a formal assessment to be made on substantial evidence. The assurance work completed by Internal Audit has been adjusted to take account of the altered working arrangements through a revised 2020/21 Audit Plan.
- 3.10 Internal Audit findings identifying system weaknesses or non-compliance with expected controls were brought to the attention of the IJB's Chief Officer, Chief Finance Officer, External Auditor and the Audit and Risk Committee. The weaknesses outlined are those that have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses, which may exist. It is the responsibility of Management to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations.

Conflicts of Interest

- 3.11 There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Assessment of Controls and Governance

- 3.12 Our evaluation of the IJB's control environment is informed by a number of sources including statutory and other compliance:
- Integration Scheme – an East Lothian Integration Scheme is in place and sets out how the IJB will operate, including the scope of the services to be included within the IJB and the financial arrangements.
 - Membership – membership of the IJB is in accordance with the Integration Scheme.

- The IJB has in place approved Standing Orders and Financial Regulations.
- Committees – the IJB has established an Audit and Risk Committee, which meets four times per year. The terms of reference of the Audit and Risk Committee cover the IJB’s governance, risk and control; internal audit; external audit; financial reporting and accountability arrangements.
- Strategic Plan – the IJB formally adopted a Strategic Plan 2016-2019 in February 2016 and a new Strategic Plan 2019-2022 was agreed by the IJB In March 2019.
- Officers – appropriate officers (Chief Officer and Chief Finance Officer) with responsibility for maintaining and operating an effective system of internal control were in place during 2019/20.
- Code of Conduct for Members of the IJB.
- The work undertaken by Internal Audit during 2019/20.

3.13 Operational matters covered by IJB Directions and which are undertaken on behalf of the IJB by either East Lothian Council or NHS Lothian are outwith the scope of the annual audit plan and this audit opinion.

3.14 During 2019/20, areas identified with scope for improvement included the following:

- Monitoring of Direction setting in addition to covering all devolved functions for the IJB should be reviewed to ensure that all Directions are formally included within the new Change Board governance structures;
- Consistency in the development of Change Board terms of reference and a clear methodology for identifying and assigning the Golden Threads to the Change Board projects; and
- A review of the arrangements in place for projecting social care expenditure growth in the later years of the financial plan.

3.15 The implementation by Management of agreed actions to address the weaknesses identified should provide assurance that the system of internal control is operating as intended.

Opinion

3.16 It is our opinion, subject to the weaknesses outlined in section 3.14 above, that reasonable assurance can be placed on the overall adequacy and effectiveness of the IJB’s framework of governance, risk management and control for the year to 31 March 2020.

4 ENGAGEMENT

4.1 None

5 POLICY IMPLICATIONS

5.1 None

6 INTEGRATED IMPACT ASSESSMENT

6.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

7 DIRECTIONS

7.1 The subject of this report does not require any amendment to or creation of Directions.

8 RESOURCE IMPLICATIONS

8.1 Financial - None

8.2 Personnel - None

8.3 Other – None

9 BACKGROUND PAPERS

9.1 None

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