



REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 29 June 2017

BY: Chief Internal Auditor

SUBJECT: Internal Audit Opinion and Annual Report 2016/17

1 PURPOSE

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor 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 Board of the internal audit work undertaken in 2016/17 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 Integration Joint Board is asked to note that the Internal Audit Opinion and Annual Report 2016/17 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 period ended 31 March 2017.

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 the results of the Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. This is to ensure that internal audit complies with the PSIAS and produces audit work of an appropriate quality.

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 2016/17 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 members are required to undertake a programme of Continuous Professional Development (CPD).

- 3.4 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.

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 which is comprised of the Chief Internal Auditor, three Senior Auditors and one Senior Audit Assistant.
- 3.6 The PSIAS state that internal auditors must possess the knowledge, skills and competencies needed to perform their individual responsibilities and encourages auditors to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications. The Chief

Internal Auditor and the three Senior Auditors are CCAB qualified. The Senior Audit Assistant is part qualified.

- 3.7 The Chief Internal Auditor 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.
- 3.8 In March 2016 the Audit and Risk Committee approved the Internal Audit Plan for 2016/17. Our audit plan was scoped to address the key risks and objectives of the IJB. In 2016/17 Internal Audit issued reports on the Financial Assurance Process 2016/17 and on the Social Care Fund. In addition one audit review (Performance Management) is currently being finalised and one audit review (Directions) is ongoing. The audit of Directions is being carried out by the NHS Lothian Internal Audit team. At the time of preparing this report the audit work was in progress and my opinion does not cover any findings from this audit.
- 3.9 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

- 3.10 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

- 3.11 My 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. 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 has formally adopted a Strategic Plan.
 - Officers – appropriate officers (Chief Officer and Chief Finance Officer) with responsibility for maintaining and operating an effective system of internal control are in place.

- Code of Conduct for Members of the IJB.
- The work undertaken by Internal Audit during 2016/17.

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.

3.12 During 2016/17, areas identified with scope for improvement included the following:

- The lack of a clear audit trail to monitor the actual expenditure incurred to date for certain categories of the social care fund (£4.37 million).
- The need to ensure that the performance management framework is fully developed and clearly sets out how the IJB will measure performance against the Strategic Plan, identify areas where improvements are required and demonstrate to stakeholders the benefits that are being delivered.
- The risk register in place requires review to ensure that it includes all ongoing and emerging risks facing the IJB including those identified as part of the financial assurance process. The register should clearly set out the additional controls and measures to manage the risks identified and meet the desired risk targets.
- The progress that requires to be made on Participation and Engagement and the Workforce Development and Support Plan, to ensure compliance with the Integration Scheme.
- The issues identified in the internal audit review of the financial assurance process for 2016/17.

3.13 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

3.14 It is my opinion, subject to the weaknesses outlined in section 3.12 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 period to 31 March 2017.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other – None

7 BACKGROUND PAPERS

7.1 None

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