



REPORT TO: East Lothian IJB Audit and Risk Committee

MEETING DATE: 6 June 2023

BY: Chief Internal Auditor

SUBJECT: Annual Internal Audit Opinion and Report 2022/23

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 IJB Audit and Risk Committee of the internal audit work undertaken in 2022/23 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 IJB Audit and Risk Committee is asked to note that the Annual Internal Audit Opinion and Report 2022/23 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 2023.

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 2022/23 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 2022. 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, a further review is due to be undertaken during 2023 by the Borders 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, through Principals agreed between Lothian NHS and the Lothian IJB's as reported to the December 2021 Audit and Risk Committee.

- 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 March 2022, the Audit and Risk Committee approved the Internal Audit Plan for 2022/23.
- 3.8 Scheduled audit reviews of CIPFA Financial Management Code compliance, Strategic Planning and Workforce Planning have been completed. Directions setting was reviewed and the new Directions Setting Policy approved by the IJB in October 2022 and subsequent consideration of Directions by the Strategic Planning Group provides assurance that there is a framework in place. However, a full review has been agreed to take place following further implementation of the framework.
- 3.9 The opinion is restricted by the assurance work that has not yet been completed, however a 75% audit plan completion allows a formal assessment to be made on substantial evidence. The assurance work completed by Internal Audit will continue to be adjusted to take account of any altered working arrangements through the 2021/22 financial year as recovery arrangements from the pandemic continue.
- 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 Audit 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 approved by East Lothian Council in June 2022 has now been approved by Scottish Ministers in May 2023 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 as amended in March 2020 and Financial Regulations.

- Committees – the IJB has an established 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 formally adopted a new Strategic Plan 2022-2025 in September 2022.
- 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 2022/23.
- Code of Conduct for Members of the IJB, which was updated and approved in June 2022.
- The work undertaken by Internal Audit during 2022/23.

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 2022/23, areas identified with scope for improvement included the following:

- Recruitment to the Strategic Planning Group to ensure that all statutory groups are represented and regular attendance from all group members are to be encouraged to ensure appropriate representation from across the community is in place by September 2023.
- The IJB had a requirement to develop a medium term Financial Plan which has now been completed for 2022/23 to 2026/27, and was approved in December 2022. The plan however noted the future work required to refine this financial plan and the requirement for significant recovery actions to bring the plan back into balance. Regular financial reporting has then been provided to the IJB at every meeting. The March 2023 Budget Offer from Partners Paper outlined that “with a £6.1m projected overspend next year and £5.9m of financial recovery plans there remains a £0.250m financial gap that the IJB requires to decide how this is mitigated.” And “within the financial recovery assumptions above, even after the identification of financial recovery plans there was still a financial gap within prescribing and set aside services.” A recovery action on the remaining £0.250m was identified for noting to the IJB in May 2023. The current challenges highlight that further and ongoing work to continue to refine the financial plan will be required moving forwards to demonstrate appropriate provision of resources to implement the ELIJB strategic plan.
- In developing the IJB workforce plan 2022-25 a comprehensive skills gap analysis has not yet been completed, therefore the Board cannot yet determine the upcoming workforce demands and develop the appropriate recruitment and training strategies to address current and future skills gaps within the workforce, this is planned to be completed by August 2023.

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 2023.

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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