

# REPORT

Item No:

<b>SUBJECT:</b>	Internal Audit Annual Audit Report 2018/2019
<b>TO:</b>	Performance, Finance and Audit Committee
<b>Lead Officer for Report:</b>	Chief Officer
<b>Author(s) of Report</b>	Head of Audit and Inspection (North Lanarkshire Council) and Chief Internal Auditor (NHS Lanarkshire)
<b>DATE:</b>	27 August 2019

## 1. PURPOSE OF REPORT

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

For approval	<input checked="" type="checkbox"/>	For endorsement	<input type="checkbox"/>	To note	<input type="checkbox"/>
--------------	-------------------------------------	-----------------	--------------------------	---------	--------------------------

1.2 This report provides details of the Internal Audit Annual Audit Report for the financial year 2018/2019 which also contains the independent annual opinion of the IJB's Chief Internal Auditors on the adequacy and effectiveness of the IJB's governance, risk management and internal control arrangements for the year ending 31 March 2019.

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

2.1 This paper has been:

Prepared By; Head of Audit and Inspection (North Lanarkshire Council) and Chief Internal Auditor (NHS Lanarkshire)	Reviewed By; Chief Officer
--	-------------------------------

## 3. RECOMMENDATIONS

3.1 The PFA is asked to agree the following recommendations:

- (1) Note the contents of the report; and
- (2) Endorse the opinion of the Chief Internal Auditors that reasonable assurance can be placed upon the adequacy and effectiveness of the IJB's framework of governance, risk management and internal control for the year ended 31 March 2019.

## 4. VARIATIONS TO DIRECTIONS

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

## 5. BACKGROUND/SUMMARY OF KEY ISSUES

5.1 A Scottish Government Advisory Group - the Integrated Resource Advisory Group (IRAG) – produced professional guidance on integration and the responsibilities of the IJBs. This guidance included the responsibility of the IJB to establish adequate and proportionate Internal Audit arrangements for review of the adequacy of arrangements for risk management, governance and control of the delegated resources.

5.2 The internal audit arrangements for the IJB are provided jointly by the internal audit teams of North Lanarkshire Council (NLC) and NHS Lanarkshire (NHSL).

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

5.3 In order to comply with the Public Sector Internal Audit Standards (PSIAS) and the approved Internal Audit Charter for the IJB, the Chief Internal Auditors of NLC and NHSL, acting jointly as the appointed Chief Internal Auditor for the IJB are required to present to the IJB an annual summary of the work undertaken by the Internal Audit teams and to provide an annual opinion on the adequacy and effectiveness of the IJB’s corporate governance, risk management and internal control arrangements.

5.4 The Internal Audit Annual Audit Report 2018/2019 is based on a body of work contained within the Internal Audit Plan for 2018/2019 which was approved by the IJB Performance, Finance and Audit Committee on 4 September 2018.

**6. CONCLUSIONS**

6.1 The Internal Audit Annual Audit Report for 2018/2019, a copy of which is attached, presents a high-level overview of the activity undertaken by the Internal Audit teams during the year before highlighting a number of the more significant issues which arose from their work and which are reflected in the annual opinion.

6.2 Based on the work undertaken directly on behalf of the IJB and being informed by internal audit work undertaken independently by each respective internal audit function within NLC and NHSL, it is concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the IJB’s framework of governance, risk management and internal controls for the year ending 31 March 2019.

6.3 A number of recommendations and improvement actions have been agreed with senior management arising from audit work undertaken during the year.

6.4 Internal audit will, as part of the 2019/2020 workplan, develop and agree arrangements to undertake follow-up work on the implementation of actions agreed in response to relevant audit recommendations and report regularly on this work to the IJB Performance, Finance and Audit Committee during 2019/2020.

6.5 Internal Audit staff appreciated the help and co-operation extended to them by the officers of the IJB and the staff within the partnership.

**7. IMPLICATIONS**

7.1 NATIONAL OUTCOMES  
This relates to all nine national outcomes.

7.2 ASSOCIATED MEASURE(S)  
The PFA and both partners are required to establish effective governance arrangements across the partnership.

7.3 FINANCIAL  
This paper has been reviewed by Finance:

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

7.4 PEOPLE  
None.

**7. IMPLICATIONS (CONT.)**

7.5 INEQUALITIES

EQIA Completed:

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

7.6 CARBON MANAGEMENT IMPLICATIONS

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

8. BACKGROUND PAPERS

None.

9. APPENDICES

Internal Audit Annual Audit Report 2018/2019	Appendix 1
Internal Audit Opinion 2018/2019	Appendix 2
Responsibilities of Management and Internal Audit	Appendix 3
Level of Assurance – Definitions	Appendix 4



.....  
CHIEF OFFICER (or Depute)

Members seeking further information about any aspect of this report, please contact Ken Adamson on telephone number 01698 302188 or Tony Gaskin on 01334 696028.

**1 Purpose of Report**

- 1.1 To report the activities undertaken by Internal Audit on behalf of the IJB for the year 2018/2019 and to present an independent annual opinion on the adequacy and effectiveness of the IJB's internal controls based on the work undertaken during the year.

**2 Background**

- 2.1 Internal Audit is an independent and objective assurance function designed to add value and improve the IJB's operations. It helps the IJB accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the IJB's risk management, internal control and governance processes thereby assisting the IJB, the Performance, Finance and Audit Committee ('the Committee') and the senior management team to effectively discharge their role and responsibilities.
- 2.2 Internal Audit's purpose, authority and responsibilities are set out in more detail in the Internal Audit Charter, which was previously approved by the Finance and Audit Sub-Committee in December 2016.
- 2.3 Internal Audit reports its outputs to the Committee which also approves Internal Audit's annual audit plan and monitors the performance of the function.
- 2.4 Internal Audit activity is planned to enable an independent annual opinion to be given by the Chief Internal Auditors on the adequacy and effectiveness of internal controls within the IJB, including the systems that achieve the corporate objectives of the IJB and those that manage the material risks they face. It should be noted, however, that the presence of an effective internal audit function contributes towards, but is not a substitute for, effective control and it is primarily the responsibility of line management to establish internal controls so that the IJB's activities are conducted in an efficient and well-ordered manner, to ensure that management policies and directives are adhered to and that any relevant assets and records are safeguarded.

**3 High level overview of Internal Audit activity during 2018/2019**

- 3.1 We are pleased to confirm that Internal Audit operated throughout 2018/2019 with no impairments or restrictions in scope or independence.
- 3.2 Internal Audit activity during the year was undertaken in accordance with the Internal Audit Annual Plan which was approved by the IJB Performance, Finance and Audit Committee on 4 September 2018.
- 3.3 Action plans are agreed with management in response to all recommendations made within Internal Audit reports. These actions will be followed up to ensure that actions agreed by management in response to audit recommendations have been successfully implemented.
- 3.4 Both Internal Audit functions operated in 2018/2019 in accordance with the Public Sector Internal Audit Standards (PSIAS).

**4 Issues arising from Internal Audit activity during 2018/2019**

- 4.1 Three Internal Audit assignments were undertaken during the year. The outcome of these reviews are detailed in the table below.

Report title	Status	Date issued	Level of Assurance <i>(see Appendix 4 for definitions)</i>
Governance	Complete	3/5/2019	Adequate
Risk management maturity	Draft report	1/8/2019	Adequate
Performance management	Draft report	By 9/8/2019	Adequate

- 4.2 Internal Audit recognises that Integration Authorities are functioning within an extremely challenging environment and that delivering the key national and local objectives around integration, whilst managing demand for services within available budgets, continues to be a significant challenge. Overall, however, the findings and results of our work, including evidence obtained as part of audit reviews which has not yet been formally completed, support a generally positive view of the IJB's governance and internal control arrangements.
- 4.3 This overall assessment is also broadly consistent with the generally positive results of both the Section 44 review of the Integration Scheme and the self-assessment submission undertaken by the IJB during 2018/2019 and reported to key stakeholders in May/June 2019.
- 4.4 The local review of integration considered performance and progress to date across seven themed workstreams (Finance, IT/Digitalisation, Strategic Planning, Governance, HR and Workforce Planning, Performance and Operations). The review highlighted some significant performance improvements but recognised that there is a need to further step up the pace of integrating health and social care services to maximise the benefits for local residents. In this regard, the review identified around 35 improvement actions which will be progressed by the IJB and its partners.
- 4.5 The self-evaluation review undertaken by the IJB assessed the maturity of the IJB's arrangements against good practice across 6 key features (Collaborative leadership and building relationships, Integrated finances and financial planning, Strategic planning, Governance and accountability arrangements, Information sharing and Engagement). The results of this review were again generally positive and areas for improvement identified have been incorporated in the improvement actions mentioned in paragraph 4.4 above.
- 4.6 We will review during 2019/2020 how these improvement actions are progressed and monitored by those charged with governance.
- 4.7 Our work on the IJB's governance arrangements was generally positive and we concluded that the IJB had adequate arrangements in place for reviewing and assessing its governance framework and that this framework was generally consistent with relevant legislative requirements and good practice. We did identify a small number of areas for improvement and will follow-up management implementation of agreed actions during 2019/2020.
- 4.8 Our work on the maturity of the IJB's risk management arrangements was also generally positive. We concluded that the IJB has made good progress and that adequate risk management arrangements are in place. We did, however, identify a number of areas where further actions are required to embed risk management more fully within the IJB's activities and will follow-up management implementation of agreed actions during 2019/2020.
- 4.9 Our work on the IJB's performance management arrangements was also generally positive. We are satisfied that the IJB's performance framework appears adequate and generally effective but we have identified a number of areas where we consider improvements could be made. We will follow-up management implementation of relevant agreed actions during 2019/2020.
- 4.10 The results from our work suggest that, with the exception of those areas noted above, there are no other matters that we require to highlight and that compliance with the requirements of the corporate governance framework adopted by the IJB continues to be positive with no significant weaknesses, areas of concern, material frauds or irregularities resulting in financial loss to the IJB identified in 2018/2019 that require to be brought to your attention.

**5 Annual Internal Audit Opinion**

- 5.1 There is a formal requirement for the Chief Internal Auditor to prepare an annual opinion on the organisation's internal control system. The opinion is presented to members of the IJB Performance, Finance and Audit Committee and the Chief Officer for Health and Social Care Integration and is intended to provide independent and objective assurance to these different stakeholders as to the adequacy and effectiveness of internal controls within the IJB.
- 5.2 The evaluation of the control environment is informed by a number of sources and in bringing these together, consideration has been given to whether there is evidence that any key controls are absent, inadequate or ineffective and whether the existence of any weaknesses identified, taken independently or with other findings, significantly impairs the IJB's overall systems of internal control. Wider issues relating to the IJB's corporate governance and risk management arrangements have also been considered.
- 5.3 The nature of individual audit assignments is such that most Internal Audit reports identify some weaknesses or areas where scope for improvement exists. However, we are pleased to report that, generally across the IJB, there continues to be a strong recognition amongst management of the importance of appropriate governance arrangements and proportionate but effective internal controls.
- 5.4 During work undertaken in 2018/2019 there have been instances where Internal Audit has made recommendations to further improve the systems of control and compliance, but Internal Audit do not consider these weaknesses significant enough to require to be highlighted in the Annual Audit Report.
- 5.5 The formal annual Internal Audit opinion on the soundness of the IJB's internal control systems is presented at Appendix 2. Overall, the results of the work of Internal Audit in 2018/2019 taken with other information available did not lead us to conclude that the IJB's overall systems of internal control were significantly or materially impaired.
- 5.6 Finally, we would like to thank all IJB staff who have assisted Internal Audit during the course of our work throughout 2018/2019 and to thank senior management and board members for the consideration and due regard given to our work.

**North Lanarkshire Health and Social Care Integration Joint Board**

Ken Adamson CPFA  
Head of Audit and Inspection  
North Lanarkshire Council  
6 August 2019

Tony Gaskin BSc ACA  
Chief Internal Auditor  
NHS Lanarkshire  
6 August 2019

**To the members of North Lanarkshire IJB's Performance, Finance and Audit Committee and the Chief Officer for Health and Social Care Integration**

As Joint Chief Internal Auditors, we are pleased to present the annual statement on the adequacy and effectiveness of the IJB's framework of governance, risk management and internal control for the year ended 31 March 2019.

**Respective responsibilities of management and internal auditors in relation to governance, risk management and internal control**

It is the responsibility of the IJB's senior management to establish appropriate and sound systems of governance, risk management and internal control and to monitor the continuing effectiveness of those systems. It is the responsibility of the Chief Auditors of the IJB to provide an independent annual opinion on the adequacy and effectiveness of the IJB's framework of governance, risk management and internal control.

**The IJB's framework of governance, risk management and internal controls**

The main objectives of the IJB's framework of governance, risk management and internal controls are to ensure that resources are directed in accordance with agreed plans, policies and priorities and to ensure that there is sound decision-making and clear accountability for the use of those resources in order to achieve the desired outcomes for service users and communities.

This will include ensuring that appropriate internal controls and risk management arrangements are in place in order to effectively manage issues which might impact on the delivery of delegated functions, the achievement of corporate objectives and public confidence in the IJB. The IJB also requires effective internal controls and risk management arrangements to safeguard its employees, to protect its assets, to maintain effective stewardship of public funds, to ensure good corporate governance, to ensure compliance with statutory requirements and to ensure it continues to deliver best value.

**The work of Internal Audit**

Internal Audit is an independent and objective assurance function established by the IJB designed to add value and improve the IJB's operations. It helps the IJB accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the IJB's risk management, control and governance processes and by providing an independent and objective opinion on the IJB's internal control environment. It also objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the IJB's resources.

The Internal Audit teams operated throughout 2018/2019 in accordance with the Public Sector Internal Audit Standards (PSIAS).

Internal Audit undertakes an annual programme of work formally approved by the IJB Performance, Finance and Audit Committee. The audit plan is determined following a risk based audit needs assessment that is revised on an ongoing basis to reflect an ongoing assessment of the evolving risks and changes within the IJB.

All Internal Audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations.

Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or, where appropriate, that management has understood and assumed the risk of not taking action. Significant matters (including non-compliance with audit recommendations) arising from internal audit work are, when required, reported to the Chief Officer and to the IJB Performance, Finance and Audit Committee.

**Basis of Opinion**

The evaluation of the control environment is informed by a number of sources:

- the audit work undertaken by Internal Audit during the year to 31 March 2019;
- the assessment of risk completed during the preparation of the 2018/2019 and 2019/2020 annual plans;
- our wider knowledge of the IJB's corporate governance, risk management and performance management arrangements;
- other relevant reports issued by NHSL and NLC Internal Audit teams during 2018/2019; and
- reports issued by the IJB's external auditors during 2018/2019, together with reports from other external review and inspection bodies.

**Opinion**

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the IJB's framework of governance, risk management and internal control for the year ended 31 March 2019.

**North Lanarkshire Health and Social Care Integration Joint Board**

Ken Adamson CPFA

Head of Audit and Inspection

North Lanarkshire Council

6 August 2019

Tony Gaskin BSc ACA

Chief Internal Auditor

NHS Lanarkshire

6 August 2019

It is the responsibility of the IJB's senior management to establish and maintain appropriate and sound systems of governance, risk management and internal control and to monitor the continuing effectiveness of those systems. It is the responsibility of Internal Audit to provide an independent opinion on the adequacy and effectiveness of the IJB's framework of governance, risk management and internal control. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan and undertake our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that all weaknesses, fraud or irregularities will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose weaknesses, fraud, defalcations or other irregularities which may exist

Engagements are conducted in accordance with the *'Public Sector Internal Audit Standards'*.

**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	
<b>Assurance</b>	Confidence based on sufficient evidence that internal controls are in place, operating effectively and objectives are being achieved.

Assurance opinion	
Level of Assurance	Definition
<b>Substantial assurance</b>	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.
<b>Adequate assurance</b>	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.
<b>Limited assurance</b>	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	
Priority	Definition
<b>Red</b>	Significant weaknesses which management needs to address to achieve objectives.
<b>Amber</b>	Weaknesses which require prompt action to avoid exposure to risks in achieving objectives.
<b>Green</b>	Action advised/area for improvement to enhance control or improve efficiency.