

REPORT

Item No: 18

SUBJECT:	Internal Audit Annual Audit Report 2020/2021
TO:	Performance, Finance and Audit Committee
Lead Officer for Report:	Chief Officer
Author(s) of Report	Audit and Risk Manager (North Lanarkshire Council) Chief Internal Auditor (NHS Lanarkshire)
DATE:	25 May 2021

1. PURPOSE OF REPORT

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

For approval	<input checked="" type="checkbox"/>	For endorsement	<input type="checkbox"/>	To note	<input type="checkbox"/>
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1.2 This report provides details of the Internal Audit Annual Audit Report for the financial year 2020/2021 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 2021.

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

2.1 This paper has been:

Prepared By; Audit and Risk Manager (North Lanarkshire Council) and Chief Internal Auditor (NHS Lanarkshire)	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 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 2021.

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 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 the review of the adequacy of the 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 2020/2021 is based on the body of work contained within the Internal Audit Plan for 2020/2021 which was previously approved by the IJB PFA Committee.

6. CONCLUSIONS

6.1 The Internal Audit Annual Audit Report for 2020/2021, a copy of which is attached, presents a high-level overview of the activity undertaken by the Internal Audit teams during the year 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 2021.

6.3 A number of recommendations and improvement actions have been agreed with senior management arising from audit work undertaken during the year. Internal Audit will, as part of the 2021/2022 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 PFA Committee during 2021/2022.

6.4 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 IJB 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"/>
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7.4 RISK ASSESSMENT / RISK MANAGEMENT

The independent review of the IJB governance framework by Internal Audit contributes to the effective management of financial, operational, strategic and reputational risks.

7.5 PEOPLE

None.

7.6 STAKEHOLDER ENGAGEMENT

The IJB PFA Committee approved the Internal Audit Plan 2020/2021 and received regular reports on the progress of implementing the External Audit and Internal Audit recommendations.

7.7 INEQUALITIES & FAIRER SCOTLAND DUTY

EQIA Completed & Fairer Scotland Impact Assessment Form Completed:

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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7.8 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

Internal Audit Annual Audit Report 2020/2021	Appendix 1
Internal Audit Opinion 2020/2021	Appendix 2
Responsibilities of Management and Internal Audit	Appendix 3
Level of Assurance – Definitions	Appendix 4



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CHIEF OFFICER (or Depute)

Members seeking further information about any aspect of this report, please contact Ken Adamson on telephone number 07939 280602.

1 Purpose of Report

- 1.1 To report the activities undertaken by Internal Audit on behalf of the IJB for the financial year 2020/2021 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.
- 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 2020/2021

- 3.1 We are pleased to confirm that Internal Audit operated throughout 2020/2021 with no impairments or restrictions in scope or independence. 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.
- 3.2 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.
- 3.3 Both Internal Audit functions operated throughout 2020/2021 in accordance with the Public Sector Internal Audit Standards (PSIAS).

4 Issues Arising From Internal Audit Activity During 2020/2021

- 4.1 Three Internal Audit assignments were planned 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>
Follow up of actions previously agreed by management in response to Audit recommendations.	Complete	May 2021	N/A
Response to Covid-19 Pandemic	Underway	Stage 1 Report - June 2021	To be confirmed
Value For Money Audit – Joint Equipment Store	Underway	Project Group Established. Internal Audit Project Rescheduled.	To be carried forward to 2021/2022

- 4.2 Whilst the Joint Equipment Store Value For Money Audit has been deferred and therefore no report has been prepared, Internal Audit were asked to attend meetings of the Project Group which was established and met regularly during 2020/2021. Internal Audit also provided detailed comment on a range of documentation which will inform future processes.
- 4.3 In addition to the above work, both NLC and NHSL undertook a range of audit work within their respective organisations on a range of systems and activities including IT controls, Information Governance/Security, key financial systems and other operational and governance processes such as Self-Directed Support and the implementation of actions arising from the Integration Review and the associated self-assessment. This Internal Audit work also provides assurance in respect of NLC and NHSL operations for which the IJB has delegated responsibility.
- 4.4 Internal Audit recognises that Integration Authorities are functioning within a 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. The additional challenges presented in 2020/2021 by the Covid-19 pandemic further increased the scale and complexity of issues facing the IJB. Overall, however, the findings and results of our work, including evidence obtained as part of audit reviews which have not yet been formally completed and audit work undertaken as part of work done within NLC and NHSL, support a generally positive view of the IJB's governance and internal control arrangements.
- 4.5 Work on the follow up of IJB actions previously agreed by management in response to audit recommendations was generally positive and we were pleased to note that management are continuing to appropriately address actions which have been identified in audit outputs. We will continue to follow-up management implementation of all agreed actions during 2021/2022.
- 4.6 The results from our work suggest that there are no 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 2020/2021 that require to be brought to your attention.

5 Annual Internal Audit Opinion

- 5.1 There is a formal requirement for the Chief Internal Auditors 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 2020/2021 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 2020/2021 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, I would like to thank all IJB staff who have assisted Internal Audit during the course of our work throughout 2020/2021 and to thank senior management and IJB Members for the consideration and due regard given to our work.

Ken Adamson
Audit and Risk Manager
North Lanarkshire Council
12 May 2021

Tony Gaskin
Chief Internal Auditor
NHS Lanarkshire
12 May 2021

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 2021.

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 Internal 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 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 and is 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 2020/2021 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 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 acting. 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 several sources:

- the audit work undertaken by Internal Audit during the year to 31 March 2021;
- the assessment of risk completed during the preparation of the 2020/2021 and 2021/2022 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 2020/2021; and
- reports issued by the IJB's external auditors during 2020/2021, 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 North Lanarkshire Health and Social Care Integration Joint Board's framework of governance, risk management and internal control for the year ended 31 March 2021.



**Ken Adamson CPFA
Audit and Risk Manager
North Lanarkshire Council**

12 May 2021



**Tony Gaskin
Chief Internal Auditor
NHS Lanarkshire**

12 May 2021

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

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.
Reasonable 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	
Priority	Definition
Red	Significant weaknesses which management needs to address 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.