

## **Item: 5**

**Monitoring and Audit Committee: 22 September 2022.**

**Integration Joint Board – Internal Audit Annual Report and Opinion.  
Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the Internal Audit Annual Report and Opinion 2021/22 in respect of Orkney Integration Joint Board.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

The Internal Audit Annual Report and Opinion 2021/22 in respect of the Integration Joint Board, attached as Appendix 1 to this report.

#### **2.2.**

That the Internal Audit Annual Report and Opinion in respect of the Integration Joint Board confirmed that, for areas subject to audit review during 2021/22, there are adequate and effective controls operating.

### **3. Background**

The Council's Chief Internal Auditor was appointed as Chief Internal Auditor of the Integration Joint Board in April 2021 for a five-year period. As part of that appointment, the Chief Internal Auditor is required to provide an annual internal audit report including an opinion on risk management, governance and control.

### **4. Internal Audit Annual Report and Opinion**

#### **4.1.**

This report was presented to the Integration Joint Board's Performance and Audit Committee on 6 July 2022 for scrutiny. In accordance with the Integration Joint Board's Internal Audit Reporting Protocol, Annual Internal Audit Reports should be shared with the partner bodies.

#### **4.2.**

The Internal Audit Annual Report and Opinion details the internal audit work completed for the Integration Joint Board, provides a summary of the findings from that work and the status of audit recommendations.

### **4.3.**

On the basis of the audit work performed in 2021/22, the Internal Auditor's opinion is that the Integration Joint Board has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, related internal controls, and the management of key risks.

## **5. Corporate Governance**

This report relates to the Council complying with governance and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

There are no financial implications associated directly with this report.

## **7. Legal Aspects**

There are no legal implications associated directly with this report.

## **8. Contact Officer**

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## **9. Appendix**

Appendix 1: Integration Joint Board – Internal Audit Annual Report and Opinion 2021/22.



## Internal Audit

# Internal Audit Annual Report and Opinion

Issue date: 13 May 2022

### Contents

|  |   |
|--|---|
| 1. Introduction .....                                | 1 |
| 2. Governance .....                                  | 1 |
| 3. Risk Management .....                             | 2 |
| 4. Control Framework .....                           | 2 |
| 5. Internal Audit .....                              | 2 |
| 6. Overall Opinion .....                             | 3 |
| 7. Achievement of Annual Audit Plan .....            | 3 |
| 8. Quality Assurance and Improvement Programme ..... | 5 |
| Appendix 1 – Definition of Opinions .....            | 6 |

# 1. Introduction

1.1. The Public Sector Internal Audit Standards state that:

- The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control

1.2. The purpose of this document is to report on the Internal Audit work completed during 2021/22 and to provide the Chief Internal Auditor's annual internal audit opinion on the Orkney Integration Joint Board's (OIJB) framework of governance, risk management and control.

1.3. At its meeting on 10 March 2021 the OIJB appointed the Chief Internal Auditor of Orkney Islands Council (OIC) as the Chief Internal Auditor of the OIJB for the period 2021 to 2026. The 2021/22 internal audit strategy and plan was approved by the OIJB Audit Committee on 23 June 2021. Audit work is undertaken in partnership with NHS Orkney (NHSO) Internal Audit Service to allow the Chief Internal Auditor to provide an annual internal audit opinion.

# 2. Governance

2.1. Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times. The core principles and sub-principles of good governance are:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement.

2.2. Good governance in the public sector also requires effective arrangements for:

- Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting and audit, to deliver effective accountability.

## 3. Risk Management

3.1. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. The OIJB approved a refreshed Risk Management Strategy at the Board meeting on 10 February 2021, which ensures processes are in place to identify significant risks to its corporate objectives. This strategy has been compiled using both the NHS Orkney and the Orkney Islands Council's strategies, and aims to build on already established best practice, so that a robust and effective framework is in place for the management of risk

3.2. The Integration Joint Board's risk management objectives are to:

- Anticipate and respond to changing social, environmental and legislative requirements.
- Prevent injury and/or harm, damage and losses:
- Comply with health and safety and legislative requirements.
- Safeguard the public, Council and NHS Orkney Board members, employees, service users and all persons to whom the OIJB has a duty of care.
- Preserve and enhance service delivery.
- Maintain effective control of public funds.
- Maintain and enhance the OIJB's reputation.
- Safeguard and enhance the quality of Orkney's environment.

## 4. Control Framework

4.1. The policies, procedures and activities that are part of a control framework are designed and operated to ensure that risks are contained within the level that the organisation is willing to accept.

4.2. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## 5. Internal Audit

5.1. The Integrated Resources Advisory Group's Finance Guidance outlines the responsibility of the Integration Joint Board 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 operational delivery of services within the Health Board and Local Authority on behalf of the OIJB are covered by their respective internal audit arrangements.

5.3. The OIJB's Financial Regulations state that internal audit shall independently and objectively examine, evaluate and report on the adequacy of internal control, governance and risk management arrangements within the OIJB.

5.4. The Internal Audit Charter 2021-22, which was approved by the OIJB Audit Committee in June 2021, defines the purpose, authority and responsibility for the Internal Audit service. The Charter conforms to the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the Public Sector Internal Audit Standards (PSIAS) updated in March 2017.

5.5. Internal Audit has organisational independence, and this independence was maintained throughout 2021/22. Staff involved in each internal audit review were independent of the OIJB and their objectivity was not compromised in any way.

5.6. The Internal Audit Strategy is reviewed and approved annually. The Strategy for 2021/22 was approved by the IJB Audit Committee in June 2021. A risk-based planning exercise is carried out each year to determine priorities and to establish and achieve objectives. This helps to control and direct audit work and to ensure the efficient and effective use of resources.

5.7. In carrying out the audit planning, consultation is carried out with senior management to produce an audit universe which includes a detailed list of OIJB services assessed on a number of risk factors. Emphasis is also placed on the OIJB's risk registers when preparing the audit universe and considering which areas should be subject to audit.

## 6. Overall Opinion

6.1. On the basis of the audit work performed in 2021/22, my opinion is that the OIJB has a framework of controls in place that provides **Adequate** assurance regarding the organisation's governance framework, related internal controls, and the management of key risks.

6.2. The actions identified during the audit work did not impact on the overall governance arrangements of the OIJB.

6.3. Furthermore, the Chief Internal Auditor confirmed that there were no fraud issues to report to the external auditors for the financial year.

6.4. My opinion has not been limited by any shortfall in resources, absence of skills, or any limitation of scope of internal audit activity that would adversely affect my ability to form an opinion.

## 7. Achievement of Annual Audit Plan

### Planned Audit Work

7.1. The internal audit plan for 2021/22 included audits of Risk Management and Information Governance and Data Sharing. The table below shows the auditable areas considered as part of the annual planning process. Both audits were completed within the financial year.

| Auditable Area                              | Risk Score | Last Audit    | 2021/22 Days | 2022/23 Days | Outline Scope  |
|---|------------|---------------|--------------|--------------|--|
| Strategic Commissioning Plan                | 96         | January 2020  |              |              |  |
| Integration Scheme                          | 94         | November 2018 |              |              |  |
| Financial Planning Monitoring and Reporting | 130        | August 2020   |              |              |  |
| Risk Management                             | 118        |               | 5            |              | Review of arrangements for OIJB risk management and how this links to OIC & NHSO |
| Communication and Engagement                | 114        |               |              |              |  |
| Performance Management                      | 152        |               |              | 5            | Review annual performance reporting procedures                                   |
| Locality Planning                           | 144        | October 2019  |              |              |  |
| Corporate Governance                        | 98         | February 2021 |              |              |  |
| Workforce Planning                          | 118        | June 2017     |              |              |  |
| Business Continuity and Disaster Recovery   | 132        |               |              | 5            | Review of arrangements for business continuity and disaster recovery             |
| Information Governance and Data Sharing     | 136        |               | 5            |              | Review of data handling procedures and data sharing agreements                   |

## Summary of Internal Audit findings

7.2. Reports were prepared and presented to the OIJB Audit Committee for both reviews. The reports are summarised in the table below, all recommendations were accepted by management.

| Review Title           | Recommendations  |
|------------------------|--|
| <b>Risk management</b> | The Risk Management Strategy should be updated to remove inconsistencies to ensure that appropriate, timely review processes are implemented and confirm the approach to ensure risk approach, analysis and relevant mutual risks are shared appropriately with and by the IJB to provide for effective partnership working on risk. |
|                        | Mitigating actions should be as SMART as possible, with clear statement of and alignment to the IJB's defined appetite.  |

|  |   |
|--|---|
| <b>Information Governance and Data Sharing</b> | The contact details of the IJB’s Data Protection Officer should be more prominent on the partners respective websites.  |
|  | A service agreement should be put in place between the IJB and its Data Protection Officer.   |
|  | The IJB should maintain a register of its data sharing agreements, memorandums of understanding, or any other relevant documents, together with their respective due dates of review. |

## Unplanned Audit Work

7.3. This year the audit team was also involved in work to support the response to the COVID-19 pandemic. Assistance was given with reviewing claims from Social Care Providers for Sustainability Payments during the COVID-19 pandemic.

## Status of Audit Recommendations

7.4. Pentana Risk is used to monitor implementation of internal audit recommendations and actions.

7.5. When internal audit reports have been finalised, the actions are uploaded to Pentana Risk and the officers responsible for implementing the audit recommendations are then required to provide updates on progress. The status of all recommendations is monitored quarterly, and any issues reported to Senior Management.

7.6. At the end of the financial year there was only 1 medium priority recommendation out of a total 15 recommendations which was past the agreed target date for completion.

# 8. Quality Assurance and Improvement Programme

8.1. Internal Audit monitors its performance to gauge the effectiveness of the service and to inform future service improvements.

8.2. The PSIAS introduces a specific requirement for the Internal Audit Service to have in place a quality assurance and improvement programme. The purpose of the programme is to “enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunity for improvement.”

8.3. Conformance with the standards is confirmed through cyclical internal and external assessments of our methodology and practice.

Andrew Paterson MSc CMIIA

Chief Internal Auditor



## Appendix 1 – Definition of Opinions

### Audit Opinions

| Opinion               | Definition  |
|-----------------------|---|
| <b>Substantial</b>    | The framework of governance, risk management and control were found to be comprehensive and effective.  |
| <b>Adequate</b>       | Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.                                      |
| <b>Limited</b>        | There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.      |
| <b>Unsatisfactory</b> | There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail. |