

Stephen Brown (Chief Officer)

Orkney Health and Care

01856873535 extension: 2601

OHACfeedback@orkney.gov.uk



Agenda Item: 5

Integration Joint Board – Audit Committee

Date of Meeting: 23 June 2021.

Subject: Internal Audit Annual Report 2020/21.

1. Summary

1.1. Internal audit has a duty to provide an annual assurance statement on the overall adequacy and effectiveness of the framework of governance, risk management and control. As Chief Internal Auditor, this annual report provides my opinion on the Orkney Integration Joint Board's (OIJB) internal control framework for financial year 2020/21.

2. Purpose

2.1. This report has been prepared to present the Internal Audit Annual Report for 2020/21.

3. Recommendations

The Audit Committee is invited to:

3.1. Scrutinise and seek assurance on the Internal Audit Annual Report 2020/21, attached as Appendix 1 to this report.

4. Background

4.1. The Integrated Resources Advisory Group (IRAG) guidance outlines the responsibility of the IJB to establish adequate and proportionate internal audit arrangements for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources.

4.2. The Chief Internal Auditor is required to provide an annual internal audit report including an audit opinion on risk management, governance and control.

4.3. The IRAG guidance recommends that the annual internal audit report is shared with the partner Health Board and Local Authority through the reporting arrangements in those bodies for internal audit. The circumstances of looked after children/young persons are reviewed regularly.

5. Contribution to quality

Please indicate which of the Orkney Community Plan 2019 to 2022 visions are supported in this report adding Yes or No to the relevant area(s):

Resilience: To support and promote our strong communities.	Yes.
Enterprise: To tackle crosscutting issues such as digital connectivity, transport, housing and fuel poverty.	No.
Equality: To encourage services to provide equal opportunities for everyone.	Yes.
Fairness: To make sure socio-economic and social factors are balanced.	Yes.
Innovation: To overcome issues more effectively through partnership working.	No.
Leadership: To involve partners such as community councils, community groups, voluntary groups and individuals in the process.	Yes.
Sustainability: To make sure economic and environmental factors are balanced.	Yes.

6. Resource implications and identified source of funding

6.1. The provision of the internal audit service for 2020 to 2021 has been contained within the contingency allocation of audit time by both Orkney Islands Council Internal Audit and the NHS Orkney internal audit service providers, Azets. This has therefore not resulted in any additional cost to any party.

7. Risk and Equality assessment

7.1. There are no risk or equality implications associated with this report. The provision of an annual internal audit opinion strengthens the governance arrangements of the OIJB.

8. Direction Required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.
Both NHS Orkney and Orkney Islands Council.	No.

9. Escalation Required

Please indicate if this report requires escalated to:

NHS Orkney.	No.
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Orkney Islands Council.	No.
Both NHS Orkney and Orkney Islands Council.	No.

10. Authors

10.1. Matthew Swann (Associate Director), Azets.

10.2. Pat Robinson (Chief Finance Officer), Integration Joint Board.

11. Contact details

11.1. Email: matthew.Swann@azets.co.uk, telephone: 01314733500.

11.2. Email: pat.robinson@orkney.gov.uk

12. Supporting document

12.1. Appendix 1: Internal Audit Annual Report 2020/21.



Orkney Integration Joint Board Internal Audit Annual Report 2020/21

May 2021



Orkney Integration Joint Board

Internal Audit Annual Report 2020/21

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Introduction

The Public Sector Internal Audit Standards (PSIAS) 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.”

To meet the above requirements, this Annual Report summarises our conclusions and key findings from the internal audit work undertaken of the Orkney Integration Joint Board during the year ended 31 March 2021, including our overall opinion on the Orkney Integration Joint Board’s internal control system.

Acknowledgement

We would like to take this opportunity to thank all members of management and staff for the help, courtesy and co-operation extended to us during the year.

Overall internal audit opinion

Basis of opinion

As the Internal Auditor of the Orkney Integration Joint Board, we are required to provide the Audit Committee with assurance on the whole system of internal control. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control.

In assessing the level of assurance to be given, we have taken into account:

- All reviews undertaken as part of the 2020/21 internal audit plan;
- Any scope limitations imposed by management;
- Matters arising from previous reviews and the extent of follow-up action taken including in year audits;
- Expectations of senior management, the Audit Committee and other stakeholders;
- The extent to which internal controls address the client's risk management /control framework;
- The effect of any significant changes in the Orkney Integration Joint Board objectives or systems; and
- The internal audit coverage achieved to date.

In my professional judgement as Head of Internal Audit, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the basis and accuracy of the conclusions reached and contained in this report. The conclusions are based on a comparison of the situations as they existed at the time against the audit criteria. The conclusions are only applicable for the entity examined. The evidence gathered meets professional audit standards and is sufficient to provide senior management with proof of the conclusions derived from the internal audit work.

Internal Audit Opinion

The work undertaken in 2020/21 considered the corporate governance processes of the Orkney Integration Joint Board and the associated efficient and effective operation of related key controls. On the basis of the specific work performed, in our opinion the Orkney Integration Joint Board has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, related internal controls, effective and efficient achievement of objectives and the management of key risks.

Azets

May 2021

Internal audit work performed

Scope and responsibilities

Management

It is management's responsibility to establish a sound internal control system. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- risk management;
- the effectiveness of operations;
- the economic and efficient use of resources;
- compliance with applicable policies, procedures, laws and regulations;
- safeguards against losses, including those arising from fraud, irregularity or corruption; and
- the integrity and reliability of information and data.

Internal auditor

The Internal Auditor assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, the Internal Auditor should:

- analyse the internal control system and establish a review programme;
- identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner;
- report findings and conclusions and, where appropriate, make recommendations for improvement;
- provide an opinion on the reliability of the controls in the system under review; and
- provide an assurance based on the evaluation of the internal control system within the organisation as a whole.

Planning process

Our strategic and annual internal audit plans are designed to provide the Orkney Integration Joint Board Audit Committee with assurance that the Orkney Integration Joint Board's internal control system are effective in managing the key risks and best value is being achieved. The plans are therefore informed by Orkney Integration Joint Board's risk management system.

The Strategic Internal Audit Plan was agreed in consultation with senior management and formally approved by the Orkney Integration Joint Board Audit Committee.

The Annual Internal Audit Plan is subject to revision throughout the year to reflect changes in the Orkney Integration Joint Board's risk profile. No changes were made to the 2020/21 plan.

We planned our work so that we have a reasonable expectation of detecting significant control weaknesses. However, internal audit can never guarantee to detect all fraud or other irregularities and cannot be held responsible for internal control failures.

Cover achieved

The 2020/21 Internal Audit Plan comprised 18 days of audit work and we completed the full programme. A comparison of actual coverage against the 2020/21 plan is attached at Appendix 1.

We confirm that there were no resource limitations that impinged on our ability to meet the full audit needs of the Orkney Integration Joint Board and no restrictions were placed on our work by management.

We did not rely on the work performed by a third party during the period.

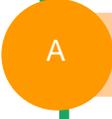
Reports

We prepared a report for the review and presented to the Orkney Integration Joint Board Audit Committee. The report is summarised in the table below. The report contained action plans detailing responsible officers and implementation dates. The report was fully discussed and agreed with management prior to submission to the Orkney Integration Joint Board Audit Committee. We made no recommendations that were not accepted by management.

Summary of reports by control assessment and action grade

Review	Control objective assessment	No. of issues per grading			
		4	3	2	1
Corporate governance		-	-	2	1

Control objective assessment definitions

-  Fundamental absence or failure of key controls.
-  Control objective not achieved - controls are inadequate or ineffective.
-  Control objective achieved - no major weaknesses but scope for improvement.
-  Control objective achieved - controls are adequate, effective and efficient.

Management action prioritisation definitions

4	•Very high risk exposure - major concerns requiring immediate senior attention that create fundamental risks within the organisation.
3	•High risk exposure - absence / failure of key controls that create significant risks within the organisation.
2	•Moderate risk exposure - controls are not working effectively and efficiently and may create moderate risks within the organisation.
1	•Limited risk exposure - controls are working effectively, but could be strengthened to prevent the creation of minor risks or address general house-keeping issues.

Key themes from audit work in 2020/21

From review of the Orkney Integration Joint Board's corporate governance arrangements we found that the Integration Scheme is in place and aligned to the Public Bodies (Joint Working) (Scotland) Act 2014. The Integration Scheme includes the reporting arrangements between the Orkney Integration Joint Board and its committees (ie the Orkney Integration Joint Board Audit Committee and the Clinical Care and Governance Committee).

We noted a small number of moderate and low risk areas for improvement which are:

- submitting the up-to-date structure and membership of groups of committees to the Orkney Integration Joint Board within a timely manner to help ensure the Orkney Integration Joint Board and its committees are performing within their remit and responsibilities.
- tracking actions raised by external auditors to enable timely completion.
- developing a process to support the tailored development needs of board members for the specific characteristics of the Orkney Integration Joint Board.

Independence

PSIAS require us to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that the staff members involved in each 2020/21 internal audit review were independent of the Orkney Integration Joint Board and their objectivity was not compromised in any way.

Conformance with Public Sector Internal Audit Standards

We confirm that our internal audit service conforms to the PSIAS, which are based on the International Standards for the Professional Practice of Internal Auditing. This is confirmed through our quality assurance and improvement programme, which includes cyclical internal and external assessments of our methodology and practice against the standards.

A summary of the results of our most recent internal assessment is provided at Appendix 2.

Appendix 1 – Planned v actual days 2020/21

Ref and Name of report	Planned Days	Actual Days
Corporate governance	11	11
Audit Committee attendance	3	3
Annual internal audit plan	1	1
Annual internal audit report	1	1
Contract management	2	2
Total	18	18

Appendix 2 – Summary of Internal Quality Assurance Assessment

We are pleased to disclose the outcome of our regular internal and external quality assessments with our clients to provide you with assurance that the service you receive is of high quality and fully compliant with internal audit standards.

The table below summarises the outcome of our most recent internal quality assessment (completed August 2020), in which we have assessed the extent to which our internal audit methodology conforms to the standards. Compliance with the methodology is monitored through an annual review of a sample of audit files and we review our compliance with the IPPF/PSIAS through a wider review of our methodology. In addition, every five years we commission a full External Quality Assessment, the most recent of which was completed in July 2018.

	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Definition of Internal Auditing	✓			
Code of Ethics				
Integrity	✓			
Objectivity	✓			
Confidentiality	✓			
Competence	✓			We are working on a skills matrix for the team that is aligned to the IIA's Global Internal Audit Competency Framework.
Attribute Standards				
Purpose, Authority and Responsibility	✓			
Recognising Mandatory Guidance in the Internal Audit Charter	✓			
Independence and Objectivity	✓			

	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Organisational Independence	✓			
Direct Interaction with the Board	✓			
Chief Audit Executive Roles Beyond Internal Auditing	✓			
Individual Objectivity	✓			
Impairments to Independence or Objectivity	✓			
Proficiency and Due Professional Care (The sum of <i>Standards</i> 1210-1230)	✓			
Proficiency	✓			
Due Professional Care	✓			
Continuing Professional Development	✓			
Quality Assurance and Improvement Programme (The sum of <i>Standards</i> 1310-1320)		✓		We are in the process of consolidating our quality and continuous improvement processes within a single Quality Assurance and Improvement Plan.
Requirements of the Quality Assurance and Improvement Programme	✓			
Internal Assessments	✓			
External Assessments	✓			
Reporting on the Quality Assurance and Improvement Programme	✓			
Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓			
Disclosure of Non-conformance	✓			

	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Performance Standards				
Managing the Internal Audit Activity (Sum total of <i>Standards</i> 2010 – 2060)	✓			
Planning	✓			
Communication and Approval	✓			
Resource Management	✓			
Policies and Procedures	✓			
Coordination and Reliance		✓		<p>Ensuring full co-ordination with other assurance providers remains challenging for all internal audit functions. We have developed a robust methodology for assurance mapping that enables us to support our clients in this important area. In addition, wherever possible we work closely with both external audit and key regulators to minimise any duplication in the scope of our work plans.</p> <p>In addition, we recently refreshed the risk maturity checklist that we use during strategic audit planning to ensure we place an appropriate level of reliance on the risk management process.</p>
Reporting to Senior Management and the Board	✓			
External Service Provider and Organisational Responsibility for Internal Audit	✓			
Nature of Work (Sum of <i>Standards</i> 2110 – 2130)	✓			
Governance	✓			
Risk Management	✓			

	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
Control	✓			
Engagement Planning (Sum of <i>Standards</i> 2201-2240)	✓			We identified the need to provide refresher training to staff on the appropriate conduct of and attendance at audit scoping and opening meetings.
Planning Considerations	✓			
Engagement Objectives	✓			
Engagement Scope	✓			
Engagement Resource Allocation	✓			
Engagement Work Programme	✓			
Performing the Engagement (The sum of <i>Standards</i> 2300-2340)	✓			We have included a focus in this year's training on the use of sample testing. This is being rolled out across all levels of staff within our team to cover both planning, execution and review. We also identified the need to provide refresher training for auditors covering the appropriate documentation of control assessments.
Identifying Information	✓			
Analysis and Evaluation	✓			
Documenting Information	✓			We recently updated our IA Methodology in relation to the Azets Professional Record Retention Policy to ensure that we continue to retain only essential information on audit files and securely destroy confidential info.
Engagement Supervision	✓			Timely sign-off of file completion remains a pervasive challenge; we have reminded all staff of the

	Generally Conforms	Partially Conforms	Does Not Conform	Improvement actions
				importance of this and included more detailed training on expectations in our annual training plan.
Communicating Results (Sum of <i>Standards</i> 2410-2440)	✓			We identified the need to provide refresher training to staff on the appropriate conduct of and attendance at audit close out meetings.
Criteria for Communicating	✓			
Quality of Communications	✓			
Errors and Omissions	✓			
Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	✓			
Engagement Disclosure of Non-conformance	✓			
Disseminating Results	✓			
Overall Opinions	✓			
Monitoring Progress	✓			
Resolution of Senior Management s Acceptance of Risks	✓			

Overall, our service conforms to the requirements of the PSIAS. Our assessment is based on the overall service that is delivered to each client. We are happy to provide Audit Committee members with further details of the information set out above and the assessment process, if required.

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