

South Ayrshire Council

Report by Chief Internal Auditor to Audit and Governance Panel of 7 September 2022

Subject: Internal Audit Annual Update Report – Integration Joint Board (IJB) Performance and Audit Committee (PAC)

1. Purpose

- 1.1 The purpose of this report is to provide an annual report for information to the Panel on internal audit work carried out for the Integration Joint Board (IJB) by the South Ayrshire Council and NHS Ayrshire and Arran (NHSAAA) internal auditors.

2. Recommendation

- 2.1 **It is recommended that the Panel notes the content of this report.**

3. Background

- 3.1 Section 5.5 of the [IJB Financial Regulations](#) outlines that the IJB Chief Internal Auditor will submit an annual audit report of the Internal Audit function to the Chief Officer and the Performance and Audit Committee (PAC) indicating the extent of audit cover achieved and providing a summary of audit activity during the year. As a minimum the annual audit report and Chief Internal Auditor's opinion will also be reported to the audit committee of the NHS Board and the Audit and Governance Panel of the Council.

- 3.2 The IJB annual report and audit opinion for 2021/22 was provided to the PAC of 30 June 2022 and will be shared with the NHSAAA Audit Committee of 23 November 2022.

4. Proposals

4.1 ***Internal Audit Outputs for the IJB during 2021/22***

- 4.1.1 During the past year, the following reports have been considered by the Members of the PAC:

- IJB Internal Audit Annual Report including the Internal Audit Annual Opinion 2021/22 (included in [Appendix 1](#) and [Annex A](#)).
- Internal Audit report on IJB Risk Management arrangements. The report was provided to all South Ayrshire Council Members for information on 22 July 2022.
- IJB Internal Audit Plan 2022/23.

- 4.1.2 The NHSAAA draft internal audit report on Delayed Discharges Performance Indicators has been issued to management for comment. A copy of the final report will be shared with the PAC once agreed.

4.2 ***Internal Audit Annual Opinions***

- 4.2.1 When preparing the statement of assurance the Chief Internal Auditor considers the work of the internal auditors of NHSAAA (Grant Thornton LLP) and the statement of assurance provided for South Ayrshire Council.
- 4.2.2 The Internal Audit Report for NHSAAA, was provided to their Audit Committee on 23 June 2022. Their opinion concludes that; *'Our overall opinion for the period 1 April 2021 to 31 March 2022 is that based on the scope of reviews undertaken and the sample tests completed during the period, partial assurance with some improvement required can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.'*
- 4.2.3 The Internal Audit opinion for South Ayrshire Council, prepared by the Chief Internal Auditor, was provided to this Panel on 22 June 2022. The opinion concludes that; *'Internal Audit can provide reasonable assurance over the framework of governance, risk management and control and that adequate controls were in place and were operating throughout the Council in 2021/22.'*

4.3 ***IJB External Auditor's Report 2021/22***

- 4.3.1 The draft IJB External Audit report (prepared by Deloitte LLP) was presented to the PAC on 26 August 2022 and will be approved by the IJB on 14 September 2022. The report states that; *'based on our work completed to date we expect to issue an unmodified audit opinion'*.
- 4.3.2 The IJB external auditors did not rely on the work completed by Internal Audit during 2021/22 but noted in their report that; *'the IJB continues to have effective budget setting and monitoring arrangements in place. This is supported by an experienced finance team and an internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error'*.

4.4 ***Internal Audit Plan for 2022/23***

- 4.4.1 The South Ayrshire IJB internal audit plan for 2022/23 was approved by the PAC on 30 June 2022. Two audits assignments are included within audit plan; (i) Performance Monitoring - To review the controls around performance monitoring arrangements, and (ii) Risk Management Follow Up Review – To review implementation of audit recommendations arising from the 2021/22 Risk Management audit assignment. Where any changes are proposed to the IJB internal audit plan, these will be presented for approval to their PAC.
- 4.4.2 Meetings are held periodically throughout the year between the Chief Internal Auditors of the three Ayrshire IJBs, as well as the internal auditors for NHS Ayrshire and Arran to consider Pan Ayrshire issues.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 Not applicable.

7. Human Resources Implications

7.1 Not applicable

8. Risk

8.1 *Risk Implications of Adopting the Recommendations*

8.1.1 There are no risks associated with adopting the recommendations.

8.2 *Risk Implications of Rejecting the Recommendations*

8.2.1 Audit reports include, in the action plans, a separate risk assessment detailing the risk of not implementing each of the Internal Audit recommendation.

9. Equalities

9.1 The proposals in this report allow scrutiny of performance. The report does not involve proposals for policies, strategies, procedures, processes, financial decisions and activities (including service delivery), both new and at review, that affect the Council's communities and employees, therefore an equality impact assessment is not required.

10. Sustainable Development Implications

10.1 ***Considering Strategic Environmental Assessment (SEA)*** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to Commitment 1 of the Council Plan: Fair and Effective Leadership/ Leadership that promotes fairness.

13. Results of Consultation

13.1 There has been no public consultation on the contents of this paper.

- 13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

**Background
Papers**

[IJB Annual Report 2021-2022](#)

[IJB Internal Audit Plan 2022 - 2023](#)

[Public Sector Internal Audit Standards 2017](#)

IJB Financial Regulations

Person to Contact

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South Ayrshire Integration Joint Board
Internal Audit Annual Report 2021/22

1. Introduction

- 1.1. The Integrated Resources Advisory Group (IRAG) 2015 guidance outlines the responsibility of the Integration Joint Board (IJB) to establish proportionate internal audit arrangements for the review of the adequacy of arrangements for governance, risk management and control of resources delegated to the IJB. The IJB appointed South Ayrshire Council's Chief Internal Auditor as the Chief Internal Auditor of the IJB.
- 1.2. The Chief Internal Auditor is required to provide an annual assurance statement on the overall adequacy and effectiveness of the framework for governance, risk management and control.

2. Internal Control Framework

- 2.1. In order to ensure the proper conduct of its business, the IJB has a responsibility to develop and implement systems of internal control. The presence of an effective internal audit function contributes towards, but is not a substitute for, effective control. It is the responsibility of management to have adequate controls in place and to ensure these controls are operating effectively. A sound control system will help safeguard assets, ensure records are reliable, promote operational efficiency and ensure adherence to Council policy and procedure. Such systems of internal control can provide only reasonable and not absolute assurance against loss.
- 2.2. The operational delivery of services within NHS Ayrshire and Arran Heath Board (NHSAAA) and the Council on behalf of the IJB will be covered by their respective internal audit arrangements.

3. Reporting requirements of the Public Sector Internal Audit Standards (PSIAS)

- 3.1. Internal Audit operates in accordance with the PSIAS requirements and is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 3.2. Internal Audit operates within the Internal Audit Charter, most recently approved by South Ayrshire Council's Audit and Governance Panel on 16 March 2022.
- 3.3. The PSIAS places a number of reporting obligations on the Chief Internal Auditor in respect of the annual report. These obligations are summarised below:

PSIAS Ref	Requirement	Evidence
1110	The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.	The Chief Internal Auditor reports directly to the Performance and Audit Committee, and unfettered access is available to the IJB Chief Officer as required.
1320	The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.	A summary of the annual self-assessment, most recently carried out in 2021, is included in this annual report. The next external review is scheduled for 2022.
2450	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.	This report to the Performance and Audit Committee provides the annual statement of assurance on internal controls.
2450	The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.	This report to the Performance and Audit Committee provides the annual statement of assurance on internal controls.
2450	The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.	This report to the Performance and Audit Committee provides a statement on the conformance with the PSIAS.

4. Compliance with PSIAS

- 4.1. The Chief Internal Auditor is required to confirm internal audit's compliance with the Public Sector Internal Audit Standards. The most recent self-assessment was carried out in 2021 and the results of that reported to the Council's Audit and Governance Panel in November 2021. There were no actions arising from this assessment. The service was externally assessed as 'generally conforms' with PSIAS in 2018. Self assessments since that date, and since the implementation of the external action plan, assess the service as 'fully conforms'. The next five-year external assessment is scheduled for 2022.

5. Position and Resourcing of Internal Audit

- 5.1. The IJB Chief Internal Auditor has a direct responsibility to report to the IJB Chief Officer and the Performance and Audit Committee. South Ayrshire Council's approved audit plan for 2021/22 allowed for 25 audit days to undertake IJB internal audit services. The audit plan for the IJB for 2021/22 was approved by the

Performance and Audit Committee on 14 May 2021. Internal Audit activity is planned to provide assurance to the board and to enable an independent annual opinion to be given by the Chief Internal Auditor on the adequacy and effectiveness of internal controls operating within the IJB.

- 5.2. The Internal Audit service of NHSAAA is provided by Grant Thornton LLP. Grant Thornton's internal audit methodology is aligned to PSIAS. The NHSAAA internal audit plan for 2021/22 was agreed with management and approved by the NHSAAA Audit Committee. The NHSAAA audit plan for 2021/22 included an allocation of 30 days pan Ayrshire for IJB Internal Audit services.
- 5.3. Meetings are held periodically with the Chief Auditors of the other IJBs in Ayrshire (East and North) as well as the NHSAAA internal auditors.

6. Achievement of Annual Internal Audit Plan 2021/22

- 6.1. Internal audit activity during the year was undertaken in accordance with the approved annual internal audit plan. The plan included a review of the IJB's Risk Management Arrangements. The objective of this review was to obtain assurance that there that there are adequate arrangements in place within the IJB to manage risk. Testing has concluded and the draft report is currently being agreed with management. The internal control assessment can therefore be included in the overall annual audit opinion. Findings conclude that a reasonable assurance opinion can be given on the system of control.
- 6.2. A copy of the full Internal Audit Report will be provided to IJB Members once finalised.

7. Audit Opinion

- 7.1. There is a formal requirement for the Chief Internal Auditor to prepare an assurance statement on the adequacy of internal control systems within the Council. The statement is included in [Annex A](#).

8. Conclusion

- 8.1. Sufficient internal audit work was completed during the year to form an internal audit opinion for 2021/22. There is no limitation of scope on the 2021/22 internal audit opinion.

Opinion on the overall adequacy and effectiveness of South Ayrshire Integration Joint Board's framework of governance, risk management and control

To the Members of South Ayrshire Integration Joint Board

As Chief Internal Auditor for South Ayrshire Integration Joint Board, I am pleased to present my annual statement on the overall adequacy and effectiveness of the framework of governance, risk management and control of the IJB for the year ended 31 March 2022.

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

It is the responsibility of the IJB to determine, establish and maintain appropriate and sound systems of governance, risk management and control and to monitor the continuing effectiveness of these systems. It is the responsibility of the Chief Internal Auditor to provide an annual internal audit opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control.

Sound internal controls

The IJB uses the systems of the Council and NHSAAA to manage its financial records. The main objectives of the IJB's framework of internal control systems are:

- to ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- to safeguard assets;
- to ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- to ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the partners of the IJB are continually seeking to improve the effectiveness of its governance arrangements and systems of risk management and internal control.

The work of internal audit

Internal audit is an independent, objective assurance and consulting function designed to review the internal control systems, add value and improve an organisation's operations. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of the organisation's resources.

The operational delivery of services within the NHS Ayrshire and Arran Health Board (NHSAAA) and South Ayrshire Council on behalf of the IJB will be covered by their respective internal audit arrangements.

South Ayrshire Council's Internal Audit section operates in accordance with Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013 (updated March 2017). The section undertakes an annual programme of work approved by South Ayrshire Council's Audit and Governance Panel, acting in its role as the Council's audit committee.

The Internal Audit service of NHSAAA is provided by Grant Thornton LLP. Grant Thornton's internal audit methodology is aligned to PSIAS.

The Council's internal audit section has provided an annual report and assurance statement for 2021/22 to the Audit and Governance Panel. The audit opinion concluded reasonable assurance over the framework of governance, risk management and control and that adequate controls were in place and were operating throughout the Council in 2021/22.

The NHSAAA internal audit plan for 2021/22 was approved by the NHSAAA Audit Committee on 11 June 2021. The most up to date position for the NHSAAA internal audit plan is that the majority of the audit plan would be delivered in order to give an annual audit opinion to the NHS Audit Committee on 27 June 2022.

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.

Basis of Opinion

My evaluation is informed by a number of sources:

- the audit work undertaken by South Ayrshire Council's Internal Audit and Corporate Fraud team in previous years, during the year to 31 March 2022 and in the period after the year-end to date;
- The NHSAAA Health Board's assurance taken from audit work undertaken to date by the appointed internal auditors, Grant Thornton LLP;
- Work undertaken by the partners' external auditors; and
- Chief Internal Auditor's knowledge of the Board's activities for the year 2021/22.

Opinion

Based on the above, reasonable assurance can be provided over the framework of governance, risk management and control and that adequate controls were in place and were operating throughout the IJB in 2021/22.

Cecilia McGhee, Chief Internal Auditor
South Ayrshire Integration Joint Board
22 June 2022